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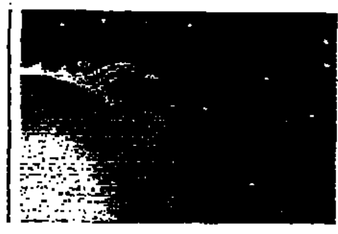
FINANCIAL TIMES

Monetary union

Early UK entry would secure a strong euro

Samuel Brittan. Page 10



Renewable energy

Europe sets itself stiff targets

Technology, Page 8

Versace

What next for the Medusan empire?

Page 16

Iran

Economy stunted by corruption

Page 4

World Business Newspaper http://www.FT.com THURSDAY JULY 17 1997

Brussels unveils plans for major expansion of EU

The European Commission has unveiled a blueprint for creating a European Union of almost 500m people stretching from Barcelona to Bucharest and the Baltic states. In a 1,300 page report the Commission called for radical reforms to the Common Agricultural Policy, tighter rules on aid to poorer regions, and a further constitutional conference to prepare for a Union of more than 20 member states. Page 12

Annan seeks UN reforms: United Nations secretary-general Kofi Annan has produced a reform plan for the UN, billed as the biggest change in the organisation's 52-year history. It received a warm greeting from the Clinton administration, but was dismissed by some members of the US Congress as too little, too late. Mr Annan wants to cut bureaucracy by merging or eliminating seven divisions of the secretariat. Page 12

UK bank shares surge on: Shares in UK banks hit new heights as investors shrugged off worries that the economic cycle might have started to turn against the financial sector. With first-half results for most large UK banks due next month, HSBC, the world's largest banking group, gained 3.1 per cent to 2151p, and Lloyds, National Westminster Bank and Barclays also powered ahead. Page 13

Hunt for Versace murder suspect: US police are hunting suspected gay serial killer Andrew Cunanan, the only suspect in the murder of Gianni Versace outside his Miami Beach mansion. Cunanan, 27, who was already on the FBI's 10 Most Wanted list, and has been charged in murders in three other states. Police say they have numerous leads.

Calls for corruption probe in Ireland: Ireland's government is under opposition pressure for a new investigation into payments to politicians, covering the period while Charles Haughey was prime minister in the 1980s. The present prime minister Bertie Ahern has warned he will root out any wrongdoing. Page 2

Shanghai industry suffers: Shanghai's economic growth has been marred by a sharp profits fall in the city's industrial sector and more losses by state-owned enterprises in the first half of this year. Shanghai's industrial sector saw a 12.1 per cent drop in profits compared to 1996. Page 6

EU approves genetic patents: The European parliament has approved a controversial directive aligning EU rules on the patenting of genetic material with those of the US and Japan. But members of the parliament added several amendments aimed at allaying fears over the ethics of genetic patenting. Page 2

Report into tanker disaster: The Sea Empress disaster, which spilled 72,000 tonnes of oil into the sea off south Wales when the tanker ran aground in February 1996, was the result of a catalogue of mistakes starting with a misjudgment by the pilot guiding the ship into harbour, the official accident report said. Page 7

Netanyahu defies UN: Israeli prime minister Benjamin Netanyahu has brushed aside a UN resolution calling on its members to discourage any activities contributing to the construction of Jewish settlements in the occupied territory. Despite mounting international criticism, Mr Netanyahu said the resolution at an emergency special session of the General Assembly was "a red herring" and a "non-issue". Page 4

Kodak earnings shock Wall St: Eastman Kodak shocked Wall Street with poor earnings for the second time in three months. Shares in the company – until recently on track for one of the most impressive US corporate turnarounds of the 1990s – fell by 10 per cent. The company also warned about the outlook for the rest of this year. Page 13

Raisio shares up again: Shares in Finnish food and chemicals group Raisio have gone up another 18 per cent in the wake of Tuesday's announcement that its cholesterol-cutting margarine, Benecol, would be marketed in the US by Johnson & Johnson. Page 13, Lex Page 12

Antarctic pollution falls: Lead pollution has declined drastically in Antarctica, as motorists in the Southern Hemisphere switched to low-lead and lead-free petrol.

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STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	8,002.42	(+26.71)
NASDAQ Composite	1,569.21	(+27.10)
Europe and Far East		
CAC40	2,988.81	(+37.31)
DAX	4,201.24	(+80.11)
FTSE 100	4,964.2	(+64.9)
Nikkei	20,358.74	(+288.33)

US LUNCHTIME RATES

Federal Funds	5⅝%
3-mth Treas Bills: Yld	5.168%
Long Bond	101¾
Yield	6.479%

OTHER RATES

UK: 3-mo Interbank	6⅞%	(same)
UK: 10 yr Gilt	101⅞	(101⅜)
France: 10 yr OAT	100.24	(100.08)
Germany: 10 yr Bund	102.88	(102.74)
Japan: 10 yr JGB	104.9914	(104.7102)

NORTH SEA OIL (Argus)

Brent Dated	$18.385	(17.915)

GOLD

New York: Comex		
(July)	$318.9	(318.3)
London:		
close	$319.15	(320.15)

DOLLAR

New York: lunchtime		
£	1.6755	
DM	1.79465	
FFr	6.0585	
SFr	1.477	
Y	115.695	
London:		
£	1.6766	(1.6745)
DM	1.7974	(1.8003)
FFr	6.0708	(6.0795)
SFr	1.4829	(1.4777)
Y	116.065	(115.49)
Tokyo close:	Y 115.6	

STERLING

DM	3.0116	(3.0145)

European markets reach new highs ■ Investors buoyed by US inflation figures

Bulls drive Dow through 8,000

By Gerard Baker in Washington and Philip Coggan in London

The Dow Jones Industrial Average passed the 8,000 level for the first time yesterday as stock markets around the world continued their phenomenal bull run.

Another bout of benign economic figures, with core US consumer prices rising only 0.1 per cent in June, reassured investors that the era of low inflation and low interest rates was set to continue. Low yields on bonds and cash have encouraged investors around the world to buy shares, pushing markets in the US and Europe to all-time highs.

The Dow jumped to 8,000 after only 12 minutes of trading, slipped back in response to poor results from Eastman Kodak, then rebounded to reach 8,004.97, up 29.28, by 1pm New York time. The yield on the benchmark 30-year Treasury bond dropped below 6.5 per cent, its lowest level since last December.

"The Fed is on hold for the present," said Mr Mickey Levy, chief economist at Nations Bank in New York. "Any thought of tightening is definitely on the back burner."

Other markets came close to breaking through numerical barriers yesterday. In London, the FTSE 100 index looked briefly as if it would top the 5,000 mark, while in Paris, the CAC-40 came within sight of 3,000, closing at 2,988.01.

European markets were generally buoyant, with the help of the recent weakness of their currencies against the dollar, which helps the prospects of continental exporters.

In Frankfurt, the DAX index, which only passed 4,000 last week, rose 2 per cent yesterday to reach 4,223.69 in electronic trading.

Traders say there are signs that US investors, having enjoyed big gains in their home markets, are looking to buy leading stocks throughout Europe. Furthermore, the speed of the market's rise is drawing in investors eager to share in the profits, creating a self-reinforcing rally. The FT/S&P Europe index has risen by more than 17 per cent, in dollar terms, this year and by 66 per cent since the start of 1995.

The US economy continued on its near-perfect path of solid

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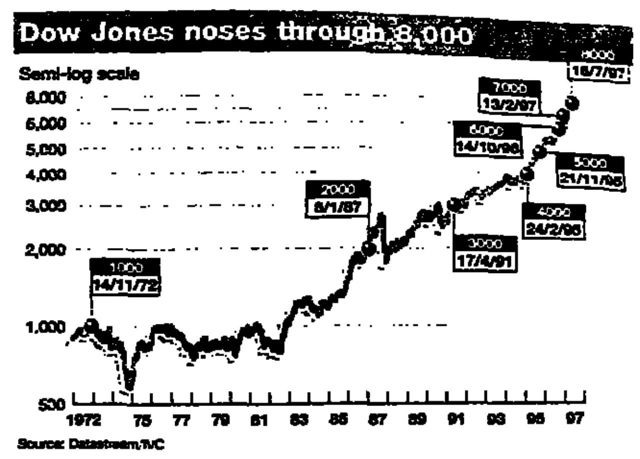

Brussels may ban Boeing merger plans

By Emma Tucker in Brussels and Michael Skapinker in London

The controversial merger between US aircraft manufacturers Boeing and McDonnell Douglas should be banned, competition experts from the European Union's 15 member states recommended yesterday.

The advice is almost certain to be followed by the Commission when it takes a final decision on the deal next Wednesday.

An EU source said "only a miracle" could change the Commission's mind, adding that Boeing – whose negotiators left Brussels on Tuesday – had run out of time in which to deliver satisfactory remedies.

A decision to ban the deal would spark fierce objections from the US. Washington rejects the Commission's charge that the merger will strengthen Boeing's dominant position in the civilian aircraft market, making it difficult for Airbus Industrie, the European consortium, to compete.

Mr Jacques Chirac, the French president, and Mr Günter Rexrodt, the German economics minister, yesterday said they supported the Commission's hard line.

Boeing said yesterday it had taken "very seriously" each of the Commission's concerns and had made a "sincere effort to put forward substantial remedies in each of the areas". The US manufacturer said it believed it still had time to reach an agreement with the Commission.

If Boeing ignores the Commission's objections and presses ahead with the merger, Brussels can impose fines of up to 10 per cent of the combined companies' revenues and could seize Boeing aircraft being delivered to the EU in order to collect the fines. By declaring the merged company illegal it could also create difficulties for companies in the EU attempting to sign contracts with Boeing.

Mr Karel Van Miert, the competition commissioner, has sought structural alterations to the merger to meet three concerns – the 20-year exclusive supply deals Boeing has concluded with Delta, American and Continental airlines; the extension of Boeing's dominance to cover 84 per cent of all civilian aircraft in service; and the fear that Boeing could benefit from access to publicly funded McDonnell Douglas defence research.

Boeing has offered to shorten the period of the exclusive agreements and has suggested an independent auditor report on whether defence funds were being used for civil projects.

Neither of these proposals was enough to satisfy the Commission. Boeing has strongly resisted suggestions that it sell off all or part of McDonnell Douglas's civil aircraft operations.

On Tuesday night, the Commission issued a statement

Continued on Page 12

Jacques Santer, president of the European Commission, presenting the Agenda 2000 report on the course of the EU into the next century to the European Parliament in Strasbourg yesterday. "This is not a process of excluding other countries. It is a process of inclusion which will be pursued permanently," he said. Report, Page 12 Picture: Reuter

BT pressed to reopen MCI deal

By Richard Waters in New York, Jane Martinson in London and Alan Cane in Edinburgh

Pressure on British Telecommunications from its shareholders to try to renegotiate its $20bn acquisition of MCI intensified yesterday, despite an attempt by Sir Iain Vallance, BT chairman, to heal the growing rift between the two companies.

The MCI camp continued to maintain that the terms of the agreement between the companies does not allow the deal to be reopened, insisting it would hold BT to the original terms.

Speaking at BT's annual shareholders' meeting yesterday, Sir Iain underlined the strategic importance of the merger, but refused to comment on whether the terms might have to be renegotiated.

One person close to MCI claimed BT did not have the power to reopen talks over price, saying that a schedule to the merger agreement, which has not been made public, includes cases in which BT cannot reopen the talks. Among these, according to another source who has seen the private document, is the following: "The accelerated implementation of the operational and capital plans of MCI relating to the local telecommunications business could impact the results of operations of MCI."

The costs of investing in the local markets was behind MCI's warning last week, although it also pointed to a deterioration in its core long-distance business.

Sir Iain was talking six days after MCI revealed that the costs of breaking into the US local telephone market would be far higher than it had expected, prompting it to reduce profit estimates for this year and next. BT expressed its dismay at the weekend; however, the pressure to resign on the two MCI executives it holds responsible for the debacle seems to have eased.

One of them, Mr Douglas Maine, chief finance officer, was yesterday discussing with Sir Peter Bonfield, BT chief executive, Mr Robert Brace, director in charge of international alliances, and Mr Gerald Taylor, MCI chief executive, the terms of the planned review of MCI's activities.

Some BT shareholders said privately that the deterioration of MCI's finances was so severe that the deal would have to be reopened. Several of BT's largest institutional investors said they expected the price of the deal to be cut by 10-20 per cent.

Guinness and GrandMet reject LVMH proposal

By David Owen in Paris and Ross Tieman in London

Guinness and Grand Metropolitan of the UK yesterday rejected a proposal from LVMH, the French luxury goods group, that they abandon their planned £24bn ($40bn) merger and instead join their wines and spirits businesses with those of LVMH to create a new world leader.

They accused Mr Bernard Arnault, the chairman of LVMH, of seeking "back-door control" over the resulting drinks business without paying a premium.

Mr Arnault, who has opposed the Guinness-GrandMet merger since it was announced in May, yesterday published his proposal for a three-way drinks deal, and for demergers of the remaining businesses of Guinness and GrandMet – prepared foods, fast food, and brewing.

LVMH said Mr Arnault was determined to press ahead with his proposal. LVMH has a 14.2 per cent stake in Guinness and has built up a 6.4 per cent stake in GrandMet since May to demonstrate it wishes to participate in their planned drinks industry consolidation.

LVMH has a strong trade interest in the outcome. Its subsidiary Moët Hennessy is 34 per cent owned by Guinness, with which it has drinks distribution joint ventures in about ten countries including the US and France. Mr Arnault claims the right to take full control of these ventures if Guinness and GrandMet merge. Guinness is contesting this claim.

Under LVMH's proposals, LVMH would exchange its 66 per cent holding in Moët Hennessy and its shares in Guinness and GrandMet for a stake of about 35 per cent in the new quoted drinks company. The French group would benefit from a 60p a share cash payout to all Guinness and GrandMet shareholders – identical to that already proposed.

Shares in all three groups jumped yesterday. LVMH shares closed up FFr49, or 3.1 per cent, at FFr1,628. Shares in Guinness added 14½p to 620½p, while GrandMet were up 15½p at 621½p.

Analysts said Mr Arnault was asking for too much by seeking a 35 per cent stake. "Mr Arnault is trying to buy something for £4bn that is worth £5bn to him," said one.

The companies discussed another option this week, also rejected by Guinness and GrandMet, under which Guinness and its partner would take the Hennessy cognac business, and LVMH the Moët champagne operation.

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Haughey affair sparks call for wider probe

By John Murray Brown in Dublin

Ireland's Fianna Fail-led government was under opposition pressure yesterday to support a new investigation into payments to politicians, to cover the whole range of decisions and appointments made while Mr Charles Haughey was prime minister in the 1980s.

After hearing Mr Haughey deny any knowledge of secret bank accounts and donations when he was prime minister, senior ministers yesterday acknowledged the need for a new tribunal.

Mr Bertie Ahern, the prime minister, has warned he will root out any wrongdoing by the party. However, with a handful of the present cabinet closely linked with Mr Haughey, Fianna Fail's concern is to limit the possible political fallout from any new inquiry.

The tribunal looking into payments by Mr Ben Dunne, the stores millionaire, will present its findings to the Irish parliament for a special debate, probably in August.

For all Mr Haughey's defiant performance, the tribunal is expected to deliver a trenchant attack on his conduct. This is certain to fuel demands by the opposition to revisit some of the financial scandals of the Haughey years, such as his support for the Irish beef industry and his knowledge of a property sale involving Telecom Eireann, the state telecommunications company.

Already, the scandal has exposed strains within Mr Ahern's minority coalition. His Progressive Democrat partners complained yesterday that Mr Haughey's evidence had "left many disturbing questions unanswered".

The PDs originally split from Fianna Fail in the mid-1980s because of disagreements over Mr Haughey's high-handed leadership.

Mr Dick Spring, the Labour party leader, yesterday called for an investigation by Fianna Fail into how Mr Haughey accounted for the I£15,000 ($23,000) paid every month as parliamentary allowance to opposition party leaders, which Mr Spring says amounted to I£750,000 over the period 1983-87.

Mrs Nora Owen, the Fine Gael deputy leader, said: "It is very difficult to believe that a person with large monthly outgoings would not question how those bills were being paid, and it is incredible to believe that a man holding public office would be so ignorant of the disparity between his income – as either minister or prime minister – and the cost of maintaining his lifestyle and properties."

Mr Haughey could still face a hefty tax bill, relating to the I£1.3m he now admits was received from Mr Dunne, by his accountant on his behalf, in the period 1987-91 when he was prime minister.

Despite widespread criticism of Mr Haughey's behaviour, officials point out he has committed no offence.

Even if he had known of his financial affairs, his failure to inform parliament was not even a breach as it is only since 1996 that Irish politicians have had to disclose their interests.

Bonn relaxed on DM's decline

By Andrew Fisher in Frankfurt

The German government yesterday signalled its awareness of the inflationary dangers that a further weakening of the D-Mark could cause. However, economists said its comments were too soft to have much impact on the foreign exchange market.

Mr Peter Hausmann, the government spokesman, said the government was in close contact with its partners in the Group of Seven industrialised countries and would follow developments on foreign exchanges closely.

Speaking after the cabinet meeting in Bonn, he said G7 countries did not want exchange rates to deviate too far from levels justified by economic trends. But the cabinet saw no reason to dramatise the rise of the dollar and sterling against the D-Mark, which could also be an "overreaction" to uncertainty about the planned single currency.

The cabinet heard a report by Mr Theo Waigel, finance minister, on the D-Mark. Last week, Mr Hans Tietmeyer, president of the Bundesbank, said the correction of the currency's previous strength had now ended. He spoke when the dollar was around DM1.76; yesterday, it edged briefly above DM1.80.

Economists said these statements showed neither the government nor the Bundesbank was really uneasy about the weaker D-Mark, since this benefited exports at a time when domestic demand was slack and inflation under control.

But concern would develop if the dollar moved quickly to DM1.90 or above. "The pace of the rise is much more important than the actual level," said Mr Holger Fahrinkrug, economist at Union Bank of Switzerland. However, he and others doubted whether central bank intervention could achieve much.

Nor did they expect the Bundesbank to raise interest rates at this stage to help strengthen the D-Mark. "I have the impression that the Bundesbank will not be diverted from its policy course," said Mr Gernot Nerb, economist at Salomon Brothers. "A rise in interest rates is not really necessary."

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Güneş Taner, economy minister, tells **John Barham** how he is intending to put a rein on a runaway situation

New Turkish ringmaster cracks whip

Mr Güneş Taner, Turkey's new economy minister, says he has "no secret formula" to stabilise his country's runaway economy. The only way to halt inflation of 80 per cent would be to "slam on the brakes and throw everyone through the windshield".

But Mr Taner, a cigar-chomping former Citibanker, says there will be no such "shock decisions". He is aware of the limitations on the new coalition government's powers and the need to maintain unity between its conservative and leftwing partners. Mr Taner says he needs to "balance the economy with political stability. The two are interdependent, they go arm-in-arm with each other".

Yet, on Monday, the government's first business day after victory in a parliamentary confidence vote, the economy minister raised fuel prices 32 per cent, telephone charges by 50 per cent and tolls on Istanbul's two Bosporus bridges by 150 per cent. Though these rises were probably overdue, they did come as a shock.

Mr Deniz Baykal, leader of the leftwing People's Republican party, that wavers between supporting and opposing the government, thundered that instead of "fine-tuning the economy", as Mr Taner promised, he is "rough-tuning it".

However, Mr Taner indicates there may be more tough measures in store for a public sector that has grown used to getting its own way. He will demand that the semi-independent central bank "produce a monetary policy it will adhere to. The Treasury will be asked not to call on the central bank for extra funds and therefore monetary discipline will be put in place".

For the past three years, the bank has concentrated more on preserving stability in the markets and supporting the Treasury than steering its own policies. Mr Taner has put his own man in the Treasury, which, he says, will operate "harmoniously" with the central bank.

This should restore some balance to the economy. Inflation is stuck at 80 per cent. Loose fiscal policies are overheating an economy set to grow at 6 per cent for the second consecutive year. The budget deficit could hit $16bn this year, 20 per cent more in real terms than in 1996.

He plans to close the gap with higher tax revenues and by awarding state-owned enterprises, price increases that should raise $2bn-$3bn. He hopes to gain another $4bn from unspecified privatisations, and aims to borrow another $9bn internationally and overseas to roll over maturing debts.

Foreign economists doubt he can raise much through privatisation this year, and worry about the price he will pay to raise $9bn in loans, since interest charges already consume almost three-quarters of tax revenues.

But the Istanbul business community is pleased that the US-educated Mr Taner is back in charge of the economy after a long absence. Financial markets have rewarded him with a sharp rally. Share prices on Istanbul's politically attuned stocks have risen by 30 per cent since June 18, when the former Islamist-led government was forced out of office.

Some were disappointed but not surprised that Mr Taner decided against seeking International Monetary Fund support for economic reforms. He says: "I have $25bn in reserves. I do not need the IMF." Instead, he says, markets should "rely on the credibility of the government" and give it "the benefit of the doubt" that it will act responsibly.

Taner: back in office after long absence *Terry Kirk*

But one equity analyst expressed concern that Mr Taner sometimes pushed too hard: "His style is aggressive and arrogant. He tends to go overboard sometimes".

Others worry that the government's Democratic Left coalition partner, which controls the finance ministry, and even members of his own Motherland party, could intervene to soften policies that might damage their popularity as next year's elections approach.

Mr Taner's style is a throwback to the golden years of the late 1980s when he was a star player in the economic team of the late Turgut Ozal, Turkey's reforming prime minister, who began liberalising Turkey's closed economy. Mr Taner still keeps a portrait of his mentor beside his desk. Unlike some members of the Ozal team, Mr Taner avoided the material temptations of power and is known to be "not rich, but principled".

Russian GDP continues to shrink

By Chrystia Freeland in Moscow

The Russian economy continued to shrink in the first half of this year, defying Kremlin promises of growth. According to official figures released this week by the State Statistics Committee, gross domestic product contracted by 0.2 per cent from January to June, continuing a negative trend which has seen the economy shrink by 39 per cent since 1991.

The figures cast doubt on the triumphant announcements of senior Russian leaders earlier this month that the economy had begun to grow. Mr Victor Chernomyrdin, the prime minister, said at the beginning of the month that GDP had bounced back by 1 per cent in the first half of the year.

His optimism was picked up by President Boris Yeltsin, who assured Russians a few days later that the country's economic collapse had ended.

Economists said the disappointing figures reflected continued structural barriers to growth, including prohibitive taxes and regulations. But they also pointed out that the official statistics might be understating activity in the real economy.

"Borrowing is still very expensive, and the tax system and regulation are very serious problems," said Mr Anders Aslund, an economist at the Carnegie Endowment. "I think we are at the beginning of a recovery, but I would expect it to be quite slow, given the structural problems."

However, Mr Aslund also said official statistics might be overstating the severity of Russia's problems, in part because of the difficulties of fully capturing developments in the country's huge shadow economy.

After fiercely contested presidential elections last year and the stabilisation of Russia's currency and inflation rate, western and Russian officials have taken to predicting that the economy is on the verge of a period of buoyant growth.

These optimistic expectations are one factor behind a raging bull market in securities, with foreigners pouring as much as $1bn a month into Russian stocks.

But, according to Mr Al Breach, a Moscow-based economist at the Russian European Centre for Economic Policy, an EU-funded think tank, the economic pickup has been slower than expected, in part because of the continued reluctance of Russian banks to invest in the real economy.

In an effort to stimulate investment, the government has waged an aggressive campaign to force down once sky-high interest rates on government securities. The effort has brought rates down to under 20 per cent a year, but that change has not yet prompted significant investment.

French strains start to show

By Andrew Jack and Samer Iskandar in Paris

The tensions between France's Gaullist president, Mr Jacques Chirac, and the Socialist-led government took a sharp turn for the worse yesterday as the two sides exchanged strongly opposing views on their roles during a period of political "cohabitation".

Mr Lionel Jospin, the prime minister, argued at a cabinet meeting in the morning that the constitution clearly defined his rights and those of the president, according to Ms Catherine Trautmann, the government's spokeswoman.

On leaving the meeting, Mr Dominique Strauss-Kahn, the finance and industry minister, added that "everyone must stick to their functions" during cohabitation – a time when president and government come from different ends of the political spectrum.

The Socialist leaders made their comments after President Chirac shattered the initial public appearance of harmony in a television interview on Monday. He attacked several of the government's policy decisions and suggested that the constitution "really gives the final word to the president".

Shortly after the Socialists' riposte yesterday, Ms Catherine Colonna, the Elysée palace's spokeswoman, replied that President Chirac wanted "a constructive cohabitation", but would continue to "tell the French what he thinks about the important questions that interest them on the future" of the country.

The deterioration in relations came after a leak in the French press last week of a confidential note on the state of the nation's finances which was given by Mr Alain Juppé, the former prime minister, to Mr Jospin during the handover of power after the last election.

Mr Jospin criticised the leak as "hardly republican", and the exchanges continued yesterday when Mr Strauss-Kahn accused the previous government of allowing the public deficits to get "out of control".

He said he hoped the figure for 1997 would be as close as possible to 3 per cent of gross domestic product, the level theoretically required to permit France to be part of the planned European single currency.

A new audit of the size of the deficit is expected to be made public on Monday, although Mr Christian Sautter, junior budget minister, gave the clearest official indication yet on Tuesday when he suggested it would be a little over 3.5 per cent.

The government is finalising measures – likely to include an exceptional increase in corporation tax – to be unveiled on the day the audit is published.

Strasbourg supports gene patent rules

By Daniel Green in London

The European Parliament yesterday approved a controversial directive that aligns rules on patenting of genetic material with those in the US and Japan.

With 388 members in favour, 110 against and 15 abstaining, the outcome was in sharp contrast to a vote on a similar directive in 1995 which the Strasbourg assembly rejected.

However, MEPs added several amendments designed to address ethical concerns raised by opponents of genetic patenting.

These include:

- ruling out the patenting of animal races and plant varieties;
- excluding from patenting procedures for human cloning or modifying the human genetic identity;
- balancing the substantial medical usefulness of the inventions in question against the suffering that certain inventions could inflict on animals;
- better definition of farmers' privilege concerning sale of breeding stock animals.

The directive now goes to European Union ministers before being passed back to the parliament for final approval. If enacted, it would harmonise patenting rules across Europe in line with the existing practice of the European Patent Office, which is not part of the EU.

The EPO allows the patenting of genetically modified plants and animals, although EU member state's patent offices need not.

Pharmaceutical and biotechnology companies want to harness the increasing knowledge of diseases with genetic causes to develop treatments. Agricultural companies want to be able to change the genes in crops and livestock to help them resist disease, drought or herbicides and even to increase nutritional value.

Dr Nicholas Scott-Ram, head of research at the UK biotechnology company British Biotech, said: "We're pleased that the parliament has sent a positive signal out on biotechnology." However, the pressure group Compassion in World Farming said it was "bitterly disappointed that the European Parliament has voted to allow animals to be patented".

Similar objections have been put forward by other organisations and lobbies, including churches, environmentalist groups and scientists. They have raised a series of concerns including the ethics of patenting animals, whether patents effectively promoted the health of the biotechnology industry, and whether scientific research would be inhibited.

But Mr Mario Monti, the EU internal market commissioner, said the parliament had addressed all these concerns in voting to approve the directive. "We have found the right balance between economic requirements and sensitivity to ethical issues," he said.

EUROPEAN NEWS DIGEST

French hint on Thomson

The French government will allow its stake in Thomson-CSF to fall below 50 per cent as part of planned restructuring of the defence electronics sector, Mr Dominique Strauss-Kahn, economy and industry minister, indicated yesterday.

He described retention of a 33 per cent blocking minority in the group – currently 58 per cent state-owned – as "a good solution", but said there were other possibilities. He hoped to reach a satisfactory conclusion before the year's end.

GEC of the UK has indicated it is willing to work with Thomson even if it remains in the public sector, but it has urged the French government to make a rapid decision on the company's future. The Socialist-led government last week cancelled the total privatisation of the company begun by the previous administration. Subsequent reports suggested the new government was considering splitting control between the public sector and private companies. *David Owen, Paris*

■ UKRAINE POLITICS

Kuchma ally named as PM

Ukraine's parliament confirmed Mr Valery Pustovoitenko, a political pragmatist, as prime minister yesterday. He won 226 votes, just attaining the absolute majority he needed in the 450-seat chamber. Ninety-one deputies voted against him.

A close ally of President Leonid Kuchma, Mr Pustovoitenko promised Ukraine would stay on the track of economic reform. His main priorities would be stimulating private enterprise, reducing taxes and diminishing the size of the shadow economy, estimated in Ukraine at 40-60 per cent of the whole economy.

Mr Pustovoitenko replaces Mr Pavlo Lazarenko, who resigned earlier this month. Mr Kuchma said he had been unhappy with Mr Lazarenko's performance. *Reuter, Kiev*

■ FLOODS IN POLAND

Call for emergency aid

The Polish government yesterday asked parliament to approve 2.5bn zlotys ($760m) worth of emergency financing from the central bank (NBP) to fund flood relief.

Mr Wlodzimierz Cimoszewicz, the prime minister, said the loan would not inflate this year's 12.2bn zlotys budget deficit. The loan would be used only to cover cash shortfalls whenever the finance ministry encountered difficulties in switching funds from existing budget projects to relieve hardship.

The bank has said it is ready to provide a 1bn zloty one-year loan to the government. The World Bank is also reported to be preparing a $300m reconstruction loan.

The government is pledged to keep this year's budget deficit at 2.8 per cent of gross domestic product. Fears that it would be forced to breach its target led to a speculative run on the zloty on Tuesday. It lost more than 4 per cent in value but firmed by 1 per cent yesterday.

Mr Cimoszewicz told parliament the floods, which were now abating, had left 35 dead and forced the evacuation of more than 132,000 people. *Christopher Bobinski, Warsaw*

■ BASQUE SEPARATISM

Juan Carlos condemns Eta

King Juan Carlos of Spain yesterday branded Eta Basque guerrillas as "contemptible terrorists" for killing a young politician. It was one of the strongest condemnations of the separatists by the king, who normally tries to stay out of politics. "His murder was as contemptible as the terrorists who killed him," the king said during a speech in Berlin which was broadcast on Spanish national radio.

He added his voice to a nationwide outcry against Eta for its abduction and killing of Miguel Angel Blanco, a 29-year-old Basque town councillor, after the government refused the group's demand for a transfer of prisoners.

Millions of Spaniards vented their rage with unprecedented force in four days of mass protests across the country. Four Eta prisoners have written letters condemning their own organisation. The government said it knew the demonstrations were a call for action and vowed to crack down. *Agencies, Madrid*

■ GERMAN JOBS

Unemployment 'stabilising'

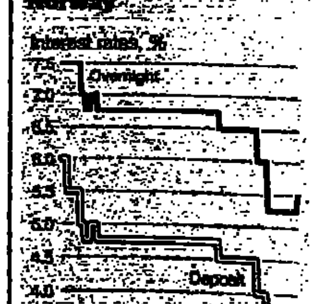
Germany's unemployment has peaked and is likely to average just under 4.3m this year, but it remains unclear if and how soon the situation will improve, Mr Bernhard Jagoda, head of the Federal Labour Office, said yesterday in an interview with Die Welt newspaper. Last month's decline in west German unemployment was better than usual for that month, he said.

"We are seeing first signs of a stabilisation," said Mr Jagoda. "Whether and how quickly the upturn will come remains open." He added that it was no surprise the economic recovery was failing to spur job creation because productivity gains were outstripping growth in gross domestic product.

"We need a reduction in the public share of the economy, deregulation, innovations, a reduction in overtime, flexible working hours. But it's not enough to talk about it. We need to act." *Reuter, Frankfurt*

ECONOMIC WATCH

Norway lifts interest rates



Norway's central bank yesterday raised official interest rates for the first time since late 1994 in response to a steady depreciation of the krone during the past four weeks. The deposit and overnight rates were increased by 0.25 percentage points to 3.5 and 5.5 per cent respectively. The move contrasted sharply with events earlier this year, when the bank cut interest rates twice in a week and purchased large amounts of foreign currency in a vain attempt to dampen a surging krone driven by Norway's booming offshore economy. The krone firmed from Nkr4.19 to NKr4.15 against the D-Mark following the announcement but analysts said the interest raise may prove insufficient.

The krone had fallen almost 9 per cent against the inverse European currency unit index since mid-June. The depreciation reflected investor worries about inflation, weaker oil prices and the outcome of September's general election.

Mr Jens Stoltenberg, finance minister, said the rate rise was necessary to maintain Norway's monetary goal of a stable krone against European currencies. Last month the bank sought to stabilise the krone by imposing fixed interest rates for fixed-term deposits, in place of its usual auction procedure. *Greg McIvor, Stockholm*

Union faces its greatest challenge as it charts expansion course into next century

No turning back from brave new Europe

By Lionel Barber in Strasbourg

Now there is no turning back. With the publication of Agenda 2000, the European Commission's 1,300-page blockbuster on enlargement, the historic process of admitting 10 former Soviet bloc countries into the European Union is finally underway.

Agenda 2000 marks the end of Old Europe, the intimate Club of Six built 40 years ago around France, Germany, the Benelux countries and Italy. The vision of an ever closer Union is shifting towards the looser confederation of nation-states favoured by Britain.

The new Europe will have a longer frontier with Russia as well as borders with Ukraine, Belarus and Moldova. It will enjoy direct access to the Black Sea and closer contacts with the Caucasus and Central Asia. The EU's own population will increase by one-third to nearly 500m people; but total gross domestic product will rise by barely 5 per cent.

"Europe's cultural diversity will be a source of creativity and wealth. The accession of new member-states will enhance the Union's weight and influence internationally," says Agenda 2000, "but the sheer number of applicants and the very large differences in economic and social development will present the Union with institutional and political challenges far greater than ever before."

Moreover, the EU today is hardly at ease with itself. More than 18m people are out of work. Public support for further integration is fragile. Economic and monetary union looks within reach but is still not a done deal. Only last month, EU leaders ducked the very institutional reforms necessary to manage a Union of more than 20 members.

This is the background to the Agenda 2000 blueprint which Mr Jacques Santer, president of the European Commission, presented to the European Parliament in Strasbourg yesterday. He trod carefully, well aware that EU governments have the last word on the Commission's recommendations.

The first area of contention is the proposal that five countries should join Cyprus early next year in the first wave of countries negotiating to join the Union. The favoured five are the Czech Republic, Poland, Hungary, Estonia and Slovenia.

Mr Hans van den Broek, Dutch commissioner in charge of eastern enlargement, resisted pressure from inside and outside the Commission to restrict the shortlist to the Czechs, Poles and Hungarians, who were invited last week to join the Nato alliance.

But the Danes, Finns and Swedes are pressing for accession negotiations to begin with all 10 applicants. This is a gesture to the two disappointed Baltic states of Latvia and Lithuania rather than to Bulgaria, Romania and Slovakia. France may be tempted to champion the cause of the new reformist government in francophile Romania; others may call for a negotiation with all 10 countries, knowing that this could be a recipe for delaying the process.

The second bone of contention is money. Net recipients from the EU budget such as Spain are sceptical about Commission claims that enlargement can be funded without any real increase in EU spending beyond the ceiling of 1.27 per cent of EU gross domestic product planned for 1999. "We don't believe in the feeding of the five thousand," said a senior Spanish diplomat. "There are not enough loaves and fish to go round."

Yet the British, French, Germans and Dutch are adamant that there should be no increase in national contributions to the next EU budget, which will run from 2000-2006. Indeed, the Germans and Dutch are threatening to copy Mrs Margaret Thatcher's successful campaign in the early 1980s to cut Britain's contribution.

Agenda 2000 proposes tighter rules on eligibility for Brussels funds. "This rationalisation has nothing to do with enlargement," said Mrs Monika Wulf-Mathies, EU regional affairs commissioner, yesterday. "We would have to do it anyway." But Mrs Wulf-Mathies has heeded Spain's warnings that it will not tolerate any tampering with the multi-billion dollar Cohesion Fund, set up in 1992 to reduce economic disparities between the poorer countries – Greece, Ireland, Spain and Portugal – and the rest of the Union.

Even if the last three join the elite Emu group in 1999, they still stand to draw on cohesion money as long as their average GNP per capita is below 90 per cent of the average. The British government yesterday said it would oppose this interpretation.

Finally, the proposed reforms of the Common Agricultural Policy strike a balance between what the Commission considers is politically manageable rather than economically desirable.

Perhaps the hottest issue is how long the central and eastern Europeans must wait before they can enjoy the same rights and privileges as the existing members of the club. Agenda 2000 devotes a mere paragraph to the question, declaring that transition periods may be necessary but should be limited in scope and duration.

Transition periods are indeed inevitable. Spain had to wait ten years before its tastiest farm products could circulate freely. All the central and eastern Europeans face huge problems in meeting EU standards in social and environmental policy. Poland, with a population of 40m bordering Germany and one-quarter of its labour force employed on the land, is in a class of its own.

Mr van den Broek said yesterday that too long transition periods add up to second-class membership. But limits on freedom of movement of people and agricultural goods will be the subject of much hard bargaining in the closing accession negotiations and will define full membership.

How long will negotiations last? The Commission's working hypothesis is that the first wave of new members will enter the Union in 2002. But this looks optimistic. Spain took seven years to conclude a deal. Some Spanish negotiators still smart from the experience. Enlargement is also hostage to the EU's internal agenda. The successful launch of Emu is almost certainly a precondition of expansion eastwards in the mind of France, if not Germany.

Constitutional reform, including a streamlined European Commission, a rebalancing of power between small and large member states and more majority voting, is necessary to prevent a paralysis in decision-making. The Commission wants another intergovernmental conference as early as possible after 2000, which could pose a hurdle to new membership.

Outside factors could also upset the Commission's plans. The proposed accession of Cyprus is a ticking timebomb in the absence of a settlement between the Greek and Turkish communities. Mr van den Broek brushed aside Turkish warnings about opening negotiations next year with the Nicosia government, preferring to stress how the prospect of membership could propel the old antagonist toward compromise.

But it is a gamble. Nato's expansion eastward seems certain to influence EU enlargement, at least indirectly. The EU insists that Union membership cannot be compensation for Nato membership, but the pressures exist. Benign Russian attitudes may also change, especially as the EU proposes to extend its writ into the Baltic states, including Estonia with its big Russian minority.

Similar potential for friction exists in Romania and Slovakia, with their sizeable Magyar minorities. They will need every incentive not to backtrack on their commitments to neighbouring Hungary. As Mr Santer underlined yesterday, enlargement will only succeed if it appears to be an inclusive process where the prospect for membership is real.

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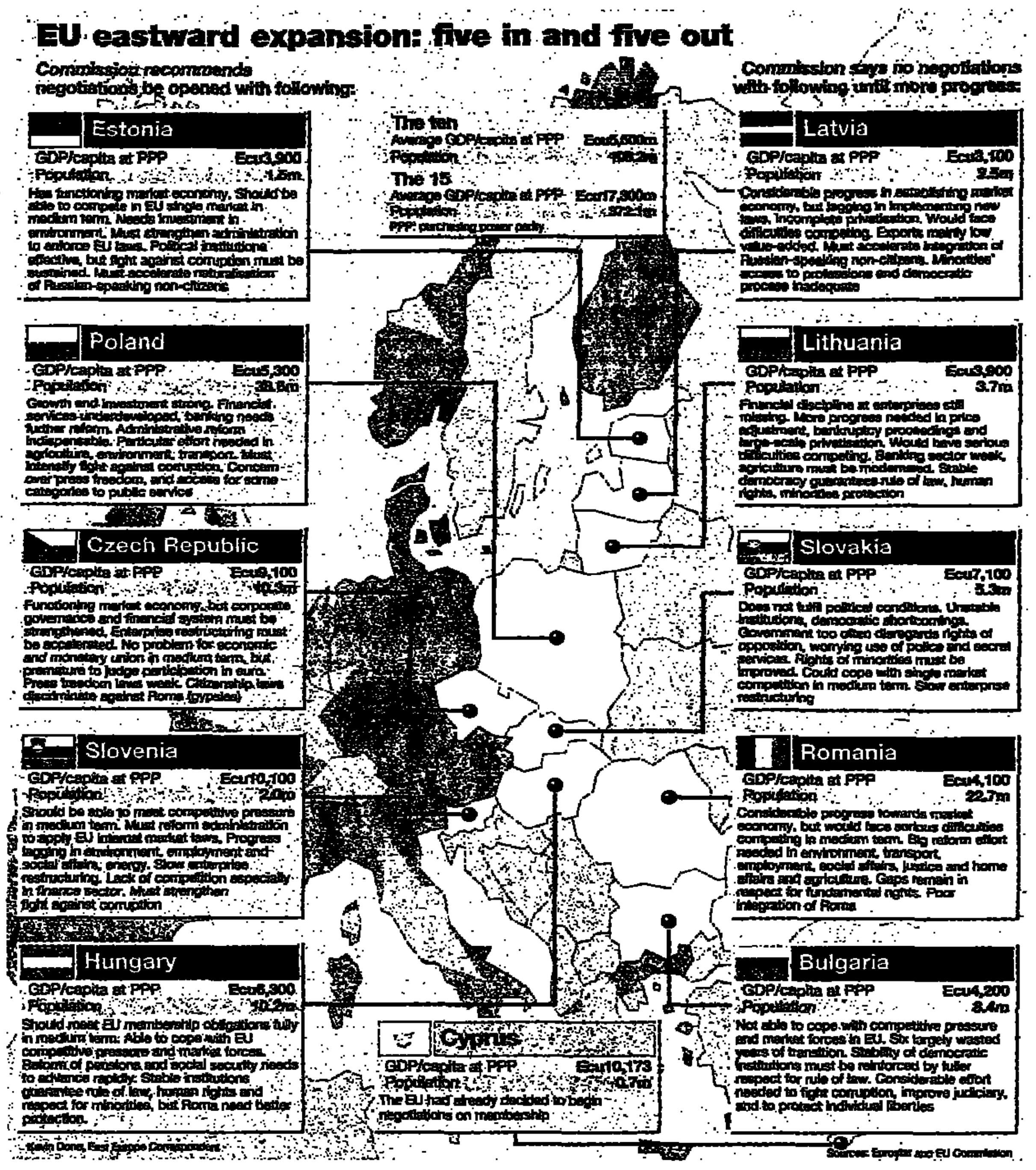
EU eastward expansion: five in and five out



Ploughing ahead to make farmers entrepreneurs

Franz Fischler will have to move a mountain of scepticism to win rural support for reform of the Common Agricultural Policy, writes Neil Buckley

Europe's farm commissioner, Mr Franz Fischler, says his call for the biggest shake-up of the Common Agricultural Policy since its birth in 1962 has one central goal: to turn farmers into "entrepreneurs".

Under his proposals, farm support prices that keep EU market prices above global levels would be slashed by up to a third, freeing farmers to export worldwide instead of creating the infamous "mountains" of overpriced produce. Farmers would be compensated for any lost income by a huge shift towards direct aid payments. But a ceiling would be introduced on the total aid individual farmers could receive – to prevent large landowners scooping up millions – and EU states would get more freedom to decide what aid went to whom.

Even before Mr Fischler's plans were officially published, however, the main EU-wide farm lobby rejected them as an "act of aggression" that would drive yet more farmers off the land. The lobby hinted at mass demonstrations unless the proposals were completely rewritten.

Selling them to sceptical farmers, and to states such as Germany and France with powerful farm lobbies, will demand all the diplomacy and bonhomie of the one-time Austrian hill farmer.

Mr Fischler insists that, after a "period of reflection", farmers will accept his argument that there is no alternative to change.

Without reform – and even before absorbing farm-intensive economies such as Poland – Brussels projects that rising output would lead to a new EU grain "mountain" of 58m tonnes, twice the previous record. The beef mountain would be 1.5m tonnes, 50 per cent above its 1980s peak.

Moreover, new World Trade Organisation talks on agriculture, due in 1999, will probably impose strict limits on EU exports unless the Union ends its system of export subsidies – which exists to compensate farmers for the gap between internal and world prices.

Mr Fischler's solution builds upon, but goes far beyond, a previous reform of the CAP in 1992.

He wants to cut intervention prices, the levels at which EU authorities step in to buy surplus stocks on the market. These provide an effective price guarantee, encouraging farmers to produce regardless of demand.

From 2000, cereal support prices would be cut by 20 per cent, beef 30 per cent, and dairy prices 10 per cent. These are on top of respective cuts of 30, 15 and 5 per cent achieved by the 1992 reforms.

Compensation payments created in 1992, per tonne of cereal or head of cattle, would be increased. Assuming market prices fall slightly less than intervention prices, Commission officials say new payment levels are calculated to fully compensate beef farmers for lost income, and cereal farmers for about 80 per cent.

The lower figure for cereal farmers reflects the fact that they have been over-compensated by some Ecu8bn ($8.8bn) since 1992, after grain prices fell less than expected. The reformed CAP will have mechanisms to prevent similar over-compensation.

But, says Mr Fischler, the real prize for farmers is the chance to export freely.

"Farmers must be competitive, they must become entrepreneurs for the future," he says.

That will provide incentives for farmers to concentrate on quality rather than quantity, and to respond to consumer demand for organic products and environmentally-sensitive farming, Mr Fischler adds.

The reforms are not cheap. Brussels forecasts that cutting support prices will save Ecu3.7bn a year, but extending direct aid will cost Ecu7.7bn – pushing up the net cost of the CAP by Ecu4bn annually. On top of that would be Ecu2bn in new rural payments aimed at creating alternative job opportunities for farmers.

But, officials say, the increase remains within EU spending targets, and would be cheaper than funding new food mountains. It also shifts the burden of supporting farmers from higher consumer prices to direct aid, ultimately paid out of taxes.

While the reforms are designed to prepare for enlargement to the east, the Commission makes clear farmers from new entrants will not immediately enjoy the same direct aid as existing EU farmers.

With agricultural prices only 40-80 per cent of those in the EU, and costly and inefficient food-processing industries which depend on lower prices, Mr Fischler says eastern European states will need a transition period of five to 10 years before full integration into the CAP. During that time, they would get development aid – forecast to reach Ecu3.9bn by 2006 – to modernise their farming and processing industries.

There might also be limited trade measures during transition – as happened when Spain and Portugal entered the EU – to prevent western states being flooded with cheap eastern imports.

With the first new EU members not expected before 2002, the fully enlarged CAP may not operate before 2010. That suggests further reform could be on the way, beyond the 2006 limit of the current plans.

Until then, the question is whether EU farmers, after three decades of guaranteed prices, are ready or willing to become "entrepreneurs".

Promise to east rings hollow

By Kevin Done in London and Foreign Staff

The European Commission's efforts to reassure the five rejected east European countries that they were not being left out from the European Union's expansion plans, rang hollow in capitals from Bucharest to Bratislava.

Mr Victor Ciorbea, Romania's prime minister, said the EU was wrong to proceed with eastward expansion in waves and pledged to foster reforms to reverse a decision to deny his country early entry.

Commission plans for negotiations with Cyprus were also clouded by a warning from Ankara, that the Turkish Cypriot north of the divided island would be integrated into Turkey if the EU went ahead with membership talks with the Cypriot government as planned next year.

Mr Ciorbea said that the Commission's decision to start membership talks only with Poland, Hungary, the Czech Republic, Estonia and Slovenia was not comparable with Nato's move last week to limit eastward expansion to three countries.

"Expansion by waves is justified in the case of Nato, but it is not justified for European Union enlargement; which is a process of continuous integration."

He vowed to continue the "political and diplomatic fight right through until December for the adoption of a political decision on EU expansion," that would overrule the Commission's proposal. The final decision will be made at the EU summit in December in Luxembourg.

By contrast, the countries that received the green light for entry negotiations basked in the warmth of approval from Strasbourg.

"We've been waiting for this document for a few years," said Mr Wlodzimierz Cimoszewicz, the Poland's, prime minister, who expressed relief that the Commission's appraisal contained "no single negative conclusion". Mr Cimoszewicz said that the limited criticism was "a realistic view of Poland's present condition. Some had feared that Poland would end up somewhere behind Estonia – as it is we are in the first rank with Hungary."

Ms Danuta Hubner, Poland's top European integration official, said that the main problem now facing the country's negotiators was whether "the government administration would be in a position to mobilise itself" to support Poland's negotiating team which expected to start talks early next year. The government already had teams in place preparing for the talks and would start work next month on the country's negotiating stance.

Estonia hailed the Commission's backing and said it would give fresh impetus to the reforms, which had already earned the country the name of the "Baltic Tiger".

"It gives us a new impulse and at the same time a duty and responsibility successfully to complete the negotiations, if they start," said Mr Mart Siimann, Estonia's prime minister. The inclusion of Estonia in the first wave would mean that it could later give support to Latvia and Lithuania "in their aspirations for EU membership," said Mr Siimann.

Mr Andregs Pildegovics, a spokesman for the Latvian foreign ministry, said that some of the Commission's supporting information was already out of date and failed to reflect the narrowing differences between Estonia and Latvia. "A common starting line would have been the best solution especially in such a dynamic region as in the Baltics," he said. Latvia would present fresh information before the EU summit in December about its progress in reforming its economy and remained hopeful of being among the first wave of countries to be admitted.

Mr Ivo Vajgl, state secretary at the Slovenian foreign ministry, said that the former Yugoslav republic should "be among the first if not the first" to conclude negotiations. "Perhaps 2001-2002 would be a realistic date for conclusion." A new minister of European affairs would start working in about one month. Enhancing fiscal, social and financial sector reforms were all on the agenda for legislation in the near future.

Hungary's prime minister, Mr Gyula Horn, presented the most optimistic timetable for negotiations and said Hungary should become a full EU member by 2000.

Hungary's case would be among the strongest and should be approved before other less deserving cases, he said. "I don't say we are in competition with other applicant states, but...the decision should not be made on a subjective basis but really based on the achievements of the countries...and Hungary's achievements are really outstanding."

Dejected: Romanian PM Victor Ciorbea said EU was wrong to proceed with eastward expansion in waves

Cyprus warmly welcomed the Commission's commitment to include it in the next wave of expansion, but sharply criticised the warnings from Ankara.

Mr Spyros Kyprianou, acting president of Cyprus said that EU membership could assist in finding a solution to the protracted dispute splitting the country.

Mr Bulent Ecevit, Turkey's deputy prime minister, warned that if the EU went ahead with planned membership talks with Cyprus, Turkey would have no choice but to unite with the northern third of the island.

Finance frame reflects realities

By Neil Buckley in Strasbourg

The days of Mr Jacques Delors, and ever-increasing EU spending supported by German generosity, are over. For the first time, the Union will undertake its next wave of expansion without increasing the overall level of funding it pulls in from member-states.

The financial framework the Commission published yesterday, which sets the spending guidelines for 2000-2006, reflects the harsh new realities of EU politics.

Member-states, sweating under the strain of meeting the criteria for economic and monetary union, are in no mood to increase their contributions to finance new members.

"You saw how difficult it was to change the [EU] Treaty at last month's Amsterdam summit," says Mr Erkki Liikanen, budgetary commissioner, who has brought a new prudence to Brussels accounting. "Getting EU states to pay more money is even more difficult."

The Commission's seven-year plan assumes annual economic growth of 2.5 per cent in existing EU states, and 4 per cent in applicant countries. At constant 1997 prices, it projects that EU spending will increase from Ecu94.1bn ($103.51bn) to Ecu111.4bn over the period.

Crucially, the ceiling on EU spending of 1.27 per cent of member states' total gross national product, originally agreed only until 1999, will be kept. The ceiling was agreed at the 1992 Edinburgh summit as part of the so-called "Delors II" budget package.

In fact, from 2002 onwards, EU spending is projected at only 1.22 per cent of EU GNP. This leaves what Mr Liikanen calls a "margin for surprises", equal to about Ecu4bn.

Biggest item of expenditure will remain the Common Agricultural Policy, which will grow by less than the existing ceiling of 74 per cent of annual GNP growth, from Ecu44.1bn to Ecu50bn.

The increase reflects the net cost of shifting from a price support system to direct aid to farmers, plus increased spending on rural development and measures to help new member-states modernise.

Structural funds, or aid to less rich and less developed regions, will increase from Ecu33.2bn to Ecu42.8bn, but stay at the Edinburgh level of 0.46 per cent of GNP.

Total structural funds over the period will be Ecu275bn, of which some Ecu45bn is earmarked for new members and applicant countries. By the end of the period, funding for those countries will rise to almost a third of the annual total.

Eastern states not lucky enough to be included in the first wave of enlargement will get Ecu7bn in "pre-accession" aid, designed to improve their environmental standards and transport systems.

Mr Liikanen admits the figures seem small against the size of the task, but insists they are sufficient. But EU funding will have to be targeted to large, effective projects cheaper to administer. Spending on other EU policies, including international aid and administration, is projected to grow at the same pace as GNP.

If the EU can get through to 2006 without raising its spending ceiling, yesterday's framework hints the limit may have to be re-examined for the following wave of enlargement, along with the way EU funds are raised from member-states.

That, in turn, could open the sticky subject of budget rebates, the subject of a long-running dispute between Baroness Thatcher, the former UK prime minister, and her European counterparts in the 1980s.

She won an annual rebate after arguing that, because of EU funding peculiarities, the UK was one of the poorer states in terms of GNP per head, but one of the biggest net contributors.

Agenda 2000 warns that accession of new members in 2002 could mean more countries in the same position as the UK, but the UK might cease to qualify for special treatment. Resolving these issues could mean battles ahead.

Moi agrees to talks with opposition

By Michela Wrong in Mombasa

President Daniel arap Moi yesterday agreed to meet Kenyan opposition leaders next week in his first conciliatory response to domestic and international pressure for political reform.

The offer came hard on the heels of a meeting with religious leaders on Tuesday evening at which the 73-year-old leader agreed the constitution needed to be reviewed to meet "the aspirations of modern Kenya". The overtures are bound to be welcomed by aid donor governments which have urged Mr Moi to open a dialogue with the National Convention Executive Committee (NCEC), the broad-based movement calling for reform.

In Brussels yesterday, Mr Joao de Deus Pinheiro, the European Union's aid commissioner, warned that the "deteriorating situation" in Kenya required "urgent and necessary dialogue".

But the timing of Mr Moi's move is likely to raise suspicions about his sincerity, as it comes at a critical stage in negotiations with the International Monetary Fund (IMF).

Government officials are anxious to send positive signals to an IMF delegation currently visiting Nairobi to decide whether to renew or suspend a loan agreement worth $220m.

The three-year loan, already running nearly a year behind schedule, is hanging in the balance because of Kenya's failure to crack down on corruption.

While nominally the IMF confines itself to purely economic factors, the current mood of frustration among bilateral donors angered by the Kenyan government's treatment of the opposition will be taken into account by the IMF board.

While welcoming Mr Moi's offer as "a step in the right direction", opposition and religious leaders also yesterday expressed caution, saying they were wary of trusting a leader who since winning the 1992 elections has not acted on repeated promises to reform the constitution.

Crucially, at Tuesday's meeting with the clerics, Mr Moi failed to specify whether a review of a range of laws giving the presidential incumbent and ruling Kanu party an advantage in polls expected later this year would take place after or before the elections.

Sceptics speculated that the president's new stance was a delaying tactic aimed at sowing division in the pro-reform movement and averting more of the street protests that have featured on foreign television screens, while allowing the ruling party to prepare for the elections.

"If NCEC representatives had gone it would mean something," said the Rev Timothy Njoya, an Anglican priest who had his arm broken last week by police disrupting pro-reform rallies. "But Moi is ignoring all that and appointing his own reformists and making himself appear a reformer.

"That is not dialogue," he said.

Netanyahu shrugs off UN threat

By Judy Dempsey in Jerusalem

Mr Benjamin Netanyahu, the Israeli prime minister, yesterday brushed aside a United Nations resolution that called on its members to discourage any activities contributing to the construction of Jewish settlements in occupied territory.

Despite mounting international criticism, Mr Netanyahu said the resolution at an emergency special session of the General Assembly was "a red herring" and a "non-issue". The vote was 131-3 with Israel, Micronesia and the US voting against it. There were 14 abstentions for the resolution, which was sponsored by 15 Arab and Moslem nations.

But there is growing concern in Israel that such criticism could harden in coming weeks if peace talks with the Palestinians are not resumed and if construction work for a new Jewish settlement at Har Homa in east Jerusalem is not stopped.

Israel's diplomats are also increasingly concerned about their country's image. Until recently, they said they had been sending back highly critical reports to the foreign ministry about reaction to the settlement issue and the impasse in the peace talks. However, senior diplomats were told to report "positive" facts and "stop complaining and being critical," a move which suggests that the Likud government is unwilling to listen to its senior embassy staff.

The UN resolution, the third from the General Assembly this year to criticise the building of settlements, was noticeably tougher in its language, signalling growing impatience with Israel's intransigence. So far the language has not been translated into action. However, the resolution also demanded that Israel "make available to member states the necessary information about goods produced or manufactured in the illegal settlements," which according to diplomats could imply moves towards a boycott.

Mr Bill Richardson, US ambassador to the UN, said the demand for a "partial economic boycott of Israel" ran counter to building blocks for the peace process. The resolution would not "serve the cause of peace in the Middle East," he added.

But Mr Ehud Barak, leader of the opposition Labour party, who yesterday held talks in Cairo with Mr Hosni Mubarak, Egyptian president, said Israel must be ready to compromise in order to achieve peace.

"We want to separate from the Palestinians, we want them to shape their own lives. We can't choose our neighbours but we must nurture respect and mutual co-operation," he said.

Shake-up will bring new era of improved efficiency and greater effectiveness

Annan unveils 'UN for next millennium'

Mr Kofi Annan, the UN secretary general, yesterday published radical plans to transform the world body and said they would create "greater agility in responding to an increasingly dynamic and complex world". The proposals would make the UN more efficient, less costly and better able to respond to political and economic challenge in the post-cold war climate.

The plan was presented to a special meeting of the General Assembly by Mr Annan, whose election last December included a mandate for farreaching changes in the UN.

Critics, especially leading conservatives in the US Congress, have questioned the relevance of the UN and attacked its sprawling bureaucracy. But Mr Annan's arrival to replace Mr Boutros Boutros Ghali ushered in improved relations with the US. His reforms seem likely to receive sympathetic consideration even if they are not as bold as some wished.

The UN estimates the US owes the world body $1.3bn. Congress is expected to agree in September to pay off much of the arrears – but only if its demands for reform are met. Mr Annan must also win the support of Third World countries in the General Assembly, whose assent is necessary to implement several proposals. To that end he insisted in his 95-page report that the UN's highest priority must be "alleviating poverty and enhancing the prospects of developing countries".

He proposed to redirect money saved by economies in administration to development activities and estimated $200m would be available by 2002.

The secretary-general highlighted plans for a new leadership and management structure, including the appointment for the first time of a deputy, preferably a woman. This is one of the decisions that rests with the General Assembly, which was unable to endorse the idea in its own proposals for UN change completed several days ago.

In a move towards a cabinet-style administration Mr Annan proposed a senior management group with responsibilities in four primary areas: peace and security, economic and social affairs, development, and humanitarian affairs (including human rights). And for the first time the UN will address the problem of a lack of up-to-date political analysis by creating a strategic planning unit.

In what one senior official called "the most revolutionary" proposal, the UN would go beyond a standstill budget – already attained in this year's $1.2bn budget – to results-based accountability, whereby funds will only be apportioned on the basis of actual financial needs of specific programmes. Mr Annan said this would herald "a new era of co-operation, transparency and accountability for achieving the outcomes that member states determine".

Perhaps the most controversial proposal, which officials acknowledged was unlikely to be passed, would create a revolving credit fund of up to $1bn financed from voluntary contributions from which debtor governments could borrow to pay UN arrears.

Responding to charges of duplication of responsibilities, Mr Annan proposed merging departments to cut administrative costs by a third.

UN peacekeeping has greatly diminished since its involvement in Somalia and Bosnia, but he called for a "rapid reaction capacity" while stopping short of mentioning the standing army that some countries would like to see but which is anathema to the US.

He termed the promotion of sustainable development a "central priority" and proposed a UN development group to merge UN funds and programmes and a new Office of Development Financing in which the proposed deputy secretary-general would lead a search for new financial resources.

Mrs Mary Robinson, the Irish President, who will soon become UN Commissioner for Human Rights, would direct all principal UN activities and programmes in that area. A new Emergency Relief Co-ordination Office would replace the Departments of Humanitarian Affairs now headed by Mr Yasushi Akashi, a senior Japanese official who is retiring.

"This is the age of the United Nations," Mr Annan declared. "Unfettered by ideological conflicts and empowered by technology and global prosperity, we can envision as never before the realisation of our noble aims. Reinvigorated, reformed and recommitted, the UN could carry the hopes and dreams of all the world's peoples into the next millennium "and make them reality".

UN: Annan's highlights

- Development fund financed by staff and administration cuts - about $200m by 2002
- Deputy secretary general post created - preferably a woman
- Cabinet-style administration with four managers for peace and security, humanitarian affairs, development, and economic and social issues. Bureaucracy consolidated
- Six aid agencies co-ordinated in two groups - humanitarian affairs and development
- Programmes to combat drug trafficking, money laundering and terrorism under single department
- Human rights responsibilities devolved to newly-appointed high commissioner
- New disarmament department
- Current zero-growth UN budget superseded by "results budget"
- New priorities for General Assembly
- Expiry dates set to ensure projects do not continue beyond their usefulness
- System of specialised agencies reviewed
- Revolving fund from voluntary contributions to allow member states to borrow to pay UN dues

Michael Littlejohns

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Agencies unite in fight against crime

By Ian Hamilton Fazey in Vienna

The new head of the UN anti-drug programme is planning a big reorganisation designed to step up the international fight against drugs, crime and terrorism.

Senator Pino Arlacchi, a former deputy chairman of Italy's anti-Mafia commission and a leading authority on organised crime and drug trafficking, is being appointed a UN under-secretary general and will take charge of the UN's office in Vienna in September.

The Vienna-based, 250-strong UN drug control programme will, in effect, be merged with the much smaller division for crime prevention and criminal justice to form a new "office for drug control and crime prevention". The division, which has only a minor role in the UN system and fewer than 20 staff, is to be strengthened and reconstituted as a centre for international crime prevention. UN member states will be asked to pay more to achieve this.

As a professor of sociology who has a worldwide reputation as a criminologist, Mr Arlacchi will be in the unusual position of knowing more about his subject than most of his staff, many of whom are international civil servants and generalists.

He will succeed Mr Giorgio Giacomelli, who has run the drug control programme since 1970 and the UN in Vienna for five years. Under Mr Giacomelli, an Italian diplomat, the programme went through three big reorganisations and several minor ones. Its World Drug Report, published this month did little to suggest the global narcotics problem was much under control.

The new centre for international crime prevention will also deal with terrorism and trafficking in women and children, and will work jointly with the drug control programme on matters such as money laundering. The programme will continue its work on prevention of drug-taking, rehabilitation of drug users and reducing supplies through encouraging alternative development in producing countries.

FIS leader says he is free to act

By Roula Khalaf in London

Mr Abassi Madani, the recently released leader of Algeria's banned Islamic Salvation Front (FIS), said yesterday that his parole carried no restrictions on political activity.

"My freedom is complete," he told the BBC World Service Arabic service. "The military law says I have to inform the ministry of defence when I leave the country, but if there had been other conditions, I would have stayed in prison."

The release of Mr Madani, who was jailed for 12 years after the army's cancellation of elections his party was set to win in 1992, has raised questions about whether he will be allowed to play a political role.

His release came a week after that of Mr Abdelkader Hachani, the FIS's third in command. Mr Hachani, however, was stripped of his civil rights for three years. Other released FIS leaders were prevented from making public statements.

Mr Madani avoided directly attacking the authorities. He said his intention is not to calm the situation but to change it within the framework of justice and freedom. "All Algeria is in prison and, God willing, it will be set free."

Mr Madani said yesterday he had not met government officials though he expected to do so. He said he hoped that his parole will be followed by the release of Mr Ali Belhaj, his more hardline deputy.

Mr Belhaj is believed to have more influence with radical armed groups known as the GIA which are blamed by the government for much of the violence rocking Algeria.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 17.07.97 / Final Prices for Trading on 16.06.97

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TB use of system price £/MWh
0030	10.11	11.56	11.56	0.00
0100	10.01	10.03	10.03	0.00
0130	10.01	10.03	10.03	0.00
0200	10.01	10.03	10.03	0.00
0230	10.01	10.03	10.03	0.00
0300	9.90	10.03	10.03	0.00
0330	9.90	10.03	10.03	0.00
0400	10.01	10.03	10.03	0.00
0430	10.01	10.03	10.03	0.00
0500	9.90	11.58	11.58	0.00
0530	9.90	10.01	10.01	0.00
0600	10.00	10.01	10.01	0.00
0630	10.01	10.01	10.01	0.00
0700	15.58	10.07	10.07	0.00
0730	18.51	14.65	14.97	1.08
0800	18.43	19.09	19.37	1.08
0830	17.13	15.75	16.08	1.08
0900	18.53	19.51	19.85	1.08
0930	18.62	19.77	20.14	1.08
1000	18.86	19.87	20.27	1.08
1030	22.60	19.98	20.41	1.08
1100	18.99	20.11	20.56	1.08
1130	22.75	43.33	43.85	1.08
1200	18.91	43.67	44.16	1.08
1230	18.82	43.53	44.10	1.08
1300	18.54	43.30	43.85	1.08
1330	18.41	21.12	21.58	1.08
1400	18.37	21.01	21.43	1.08
1430	17.15	21.85	22.24	1.08
1500	17.14	21.82	22.19	1.08
1530	17.13	19.42	19.80	1.08
1600	17.15	21.04	21.46	1.08
1630	21.82	23.48	23.94	1.08
1700	18.38	34.84	35.30	1.08
1730	21.79	34.67	35.08	1.08
1800	21.75	19.72	20.08	1.08
1830	16.86	19.06	19.38	1.08
1900	21.73	19.05	19.38	1.08
1930	16.81	15.12	15.43	1.08
2000	16.86	11.86	11.86	0.00
2030	15.60	14.99	15.31	1.08
2100	15.60	14.99	15.31	1.08
2130	16.86	14.99	15.31	1.08
2200	23.89	14.99	15.31	1.08
2230	23.89	21.63	21.94	1.08
2300	23.89	21.63	21.94	1.08
2330	16.86	21.63	21.94	1.08
2400	16.58	21.63	21.94	1.08

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.887 MWh becomes 1.6887p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. [illegible]

Robin Allen, recently in Tehran, finds scepticism about anti-corruption moves

Business questions Iran 'clean-up'

The recent flurry of well-publicised demands from Iran's leadership to root out corruption among government "officials" has cut little ice among the country's struggling business community, for whom pervasive graft among state officials is a fact of life.

The call, orchestrated by the state-controlled media, was immediately followed by parliamentary demands for an investigation into the assets of top officials in President Hashemi Rafsanjani's outgoing conservative administration and their families.

A senior western diplomat remarked: "All it means is that different people will be getting their hands on the purse-strings. When a government changes, a 'clean-up' is called for. People are sacked for 'corruption' or 'incompetence'. Then the new lot arrive and the process starts again."

Khamenei: 'war on corrupt'

It is not difficult to spot beneficiaries of the system. They drive around in imported Mercedes-Benzes and new Japanese four-wheel drives. They are the clerical apparatchiks who fill expensive new apartment blocks in north Tehran, comfortably above the pollution which chokes most of the city. They could be running any one of the countless trading companies owned by government – the commerce ministry alone owns 72 – which entitles them to foreign exchange at preferential rates and "official" trips abroad. In short they live conspicuously beyond what a mere state salary could provide.

The call for "a war on corruption" from Ayatollah Ali Khamenei, the country's spiritual leader, and from the majlis, or parliament, is reckoned to have been prompted, in part, by recent press allegations of fraud in, or related to, government ministries, including the justice ministry, the housing and urban development ministry and the posts, telephones, and telegraphs ministry.

Last month one state official and 12 accomplices were sentenced to up to 30 years in jail for misappropriating part of hundreds of millions of dollars allocated for rebuilding areas hit by recent earthquakes. A senior judge in Urumiyeh, near the Turkish border, is also reported to have been arrested for taking bribes.

Among the more high-profile victims of Iran's attempted clean-up operations is Mr Bijan Shafaq, a former commander of Iran's elite revolutionary guards corps (IRGC), the supreme head of which is none other than Ayatollah Khamenei himself. Mr Shafaq is reported to be on trial for alleged embezzlement and treason.

After his departure from the IRGC several years ago, Mr Shafaq joined the construction crusade ministry. Despite the suggestion of dynamism and zeal written into its name, this ministry is, according to western diplomats, nothing more than the ministry responsible for rural development. As such it is regarded as "a lucrative source of patronage, kickbacks; as well as having the political power which goes with control of food coupons," said a diplomat.

The Islamic state and the bureaucratic vested interests which it spawns, control up to 85 per cent of the country's economic activity; "a recipe", commented one western diplomat, "for insider dealing and partibazi or influence-peddling". To complicate matters, there is no one single "state" institution, but several, often competing with one another.

Meanwhile, the private sector has been reduced to some agricultural enterprises, such as pistachio production, and some smaller retail, trading and manufacturing industries.

State foundations dominate economy

Of all the state-vested interests competing for political influence and scarce hard currency, Tehran businessmen say the most formidable are the bonyad, the state foundations set up by the clergy after the revolution and directed by political nominees without regard to business experience, writes Robin Allen.

Many economic commentators say it is the opacity and power of such privileged corporations, their reputation for mismanagement, obsessive secrecy and covert operations that are a greater deterrent to foreign investors than the fear of running foul of US sanctions, which Tehran blames.

Among the Bonyad, the most notorious is the Bonyad Mostazafan, the "foundation for the oppressed and disabled". At its head is Mr Mohsen Rafiqdoost, a former minister of Iran's Revolutionary Guards Corps (IRGC), itself an industrial and defence conglomerate second in size only to the Mostazafan.

By Mr Rafiqdoost's own admission it alone is the direct employer of – or benefactor to – some 430,000 individuals.

Private businessmen and analysts say the number is nearer 700,000, or some 5 per cent of the male workforce.

Together with orthodox government ministries and nationalised industries, the Mostazafan and other state companies are allocated two-thirds of budget expenditure each year and have preferential access to scarce foreign exchange at rates reserved for favourites of the regime. They grant themselves industrial licences and operate independently of conventional government departments.

The Sepah Pasdaran has its own bank which, unlike other more conventional state banks, is exempted from keeping interest-free deposits with the central bank.

The autonomy of the bonyad is not confined to banking, commerce or industry. One of them unilaterally took the initiative in 1989 to offer the $2m "bounty" for Mr Salman Rushdie, the British author, an issue which continues to bedevil European-Iranian relations.

Despite their size and importance, these state foundations never feature in official statements or statistics. Yet they, or the conventional state, own or control all the country's 21 banks, transport companies, oil, petrochemical and mining companies and vast parts of the construction, manufacturing and agricultural sectors.

India import curbs row goes to WTO

By Frances Williams in Geneva

Three of India's main trading partners have complained to the World Trade Organisation about New Delhi's extensive import controls on consumer goods.

The US, Australia and Canada filed formal complaints through the WTO's dispute settlement system. Their move follows the breakdown of talks on phasing out the curbs. The European Union is expected to follow suit tomorrow. If no agreed settlement is reached within 60 days, the complainants can ask for a neutral panel to rule on a timetable for ending restrictions.

At a meeting of the WTO's balance of payments committee on July 1, India offered to dismantle controls on 2,700 items over seven years rather than the nine years it first proposed. But the Indian plan left many "big ticket" items such as cars and grains until the end. This was unacceptable to western trading partners which had sought a two-to-three year phase-out.

An IMF report in January said India no longer faced acute balance-of-payments problems and had healthy foreign exchange reserves, which meant it could no longer justify the import restrictions under the WTO's balance-of-payments waiver. Quantitative controls are normally forbidden under WTO rules.

India has agreed in principle to phase out the controls, in place for four decades, but says it needs to do this gradually to minimise the impact of a surge of consumer imports.

The US said yesterday that many other countries – for example the Philippines, Egypt, Turkey, Hungary, Poland, Brazil, Colombia, Argentina and South Africa – had managed to eliminate their import restrictions "fairly quickly".

In 1989, South Korea was given seven years to phase out controls but since then countries have embraced trade liberalisation more enthusiastically and agreed terms have become tougher.

The US said it hoped India would put forward an acceptable phase-out plan during the 60-day consultation period. Many trade experts believe India has a strong incentive to settle quickly before a panel ruling that could impose an even tighter timetable. New Delhi insists that it has complied to the letter with WTO rules.

● The WTO yesterday agreed to set up a working party to draft membership terms for Azerbaijan, the former Soviet republic, and to grant observer status to the Vatican.

Observer, Page 11

President Bill Clinton will approve a third six-month waiver on the controversial Helms Burton legislation that penalises foreign companies doing business in Cuba, writes Mark Suzman in Washington.

The White House said yesterday that Mr Clinton would continue to waive Title III of the Act under which US citizens have the right to sue foreign businesses if they use property confiscated from US owners after the 1959 revolution.

The legislation, which is intended to force Cuba to make democratic reforms, has been strongly opposed by the European Union and other international bodies.

Mr Clinton has indicated he will continue to waive Title III until the end of his term in January 2001.

Walt Disney presents: a Japanese story

Michiyo Nakamoto on the US group's distribution rights deal with a leading animation studio

Step aside Mickey Mouse, here comes Princess Mononoke. Walt Disney, whose fame as the world's most successful home entertainment company is indivisible from that of the cheerful little American mouse, has turned its formidable marketing skills to selling a very Japanese story.

The US entertainment group has acquired distribution rights for The Princess Mononoke, an animated film that is being billed as the biggest ever blockbuster in the Japanese industry.

The Princess Mononoke, which opened at Japanese cinemas last weekend, is expected to rake in an unprecedented Y6bn ($52.63m) in domestic distribution revenues, surpassing those from Disney's own animated films in Japan.

Under an agreement with Tokuma, a Japanese publisher, Walt Disney has acquired the distribution rights in five countries outside Japan for The Princess Mononoke as well as the right to release films and produce home videos of several other animated films made by Tokuma's animation arm, Studio Ghibli.

A Japanese princess on the world's screens, courtesy of Walt Disney

This is the first time that Walt Disney has taken on the distribution of Japanese animation.

The US group's plan to distribute Ghibli films and videos will be an important test of whether Japanese animation has the universal appeal that has made many of Disney's own animated productions global successes.

Tokuma has put Y3.3bn into the production of The Princess Mononoke, which was written and directed by Mr Hayao Miyazaki.

Studio Ghibli productions differ from much Japanese animation which is characterised by cult followings built around violent science fiction and fantastical worlds of superhuman characters who fight each other relentlessly. Ghibli's are feature-length films and generally have a strong theme that appeals to a wider audience, fitting nicely with the Walt Disney tradition.

Many of Miyazaki's animated films revolve around the theme of the need to live in harmony with nature. For example, Pom Poko, which brought in Y2.65bn in its initial domestic release alone, recreates the history of post-war Japan through a portrayal of the attempts of a badger community to protect its natural habitat against human encroachment.

In Japan, Pom Poko's initial takings were on a par with distribution revenues of Y2.65bn for Disney's immensely popular Aladdin and surpassed those of the US studio's Lion King at Y2bn as well as Beauty and the Beast at Y1.65bn.

Miyazaki's My Neighbour Totoro, a tale of two young girls who meet Totoro, a fictional animal that reveals to them the wonders of the natural world, became a quiet hit in the US when it was released there several years ago. Totoro's video sales of 560,000 units in the US was unprecedented for a Japanese film.

The Princess Mononoke, set in ancient Japan, portrays the conflict between industrialisation and nature. It is expected to be an even bigger hit than Totoro, which was released both in Japan and the US without the help of the marketing skills of Walt Disney.

Mr Kosei Ono, who comments on and writes extensively about cartoons and animation, questions whether the complicated plot of The Princess Mononoke and its vivid visual portrayal that includes violent scenes will be widely acceptable to a western audience.

Nevertheless, he acknowledges that Studio Ghibli is the closest thing Japan has to a Walt Disney. Its promotion in the west is not only a gamble for the US entertainment group, but will set an important precedent for whether Japanese animation can break out of niche markets and succeed internationally.

Japanese admit ports are too costly

By Bethan Hutton in Tokyo

Japan's ports are losing out to Asian competitors because of high costs, according to a white paper on shipping issued yesterday by Japan's transport ministry.

Handling charges for a 40 ft container at Japanese ports can be more than double those at ports in Singapore or Pusan, South Korea, the report said.

The ministry, accused by the US and European Union of stifling waterfront competition in Japan, said Japanese ports and shipping companies must improve competitiveness by cutting costs and streamlining their businesses. It also called for less stringent port regulations.

Japanese port practices are the subject of disputes with both the US and the EU, which has taken the issue to the World Trade Organisation.

Earlier this year, the Federal Maritime Commission of the US threatened to impose surcharges on three Japanese shipping companies using US ports, in retaliation for what it said were expensive and restrictive Japanese port practices. Under a system of "prior consultation", even the smallest changes in shipping schedules have to be notified in advance to the Japan Harbour Transportation Association, which represents stevedoring companies.

The threat of sanctions was lifted after Japan agreed to draw up measures by the end of this month to reform the prior consultation system.

It also promised to relax regulations to make it easier for foreign companies to set up stevedoring operations in Japan.

EU representatives who met their Japanese counterparts to discuss the ports dispute this week said they hoped "tangible improvements" to the prior consultation system would be achieved by the end of July.

Japanese shipping companies, which are also affected by higher costs in domestic ports, are also in favour of some deregulation, but port workers' unions are putting up strong resistance.

Bidding row hits Mexican rail deal

By Leslie Crawford in Mexico City

Mexico's comptroller-general's office has suspended a $400m international tender for rolling stock for the Mexico City metro following protests from a disqualified finalist.

The dispute surrounding the tender, one of the biggest public works projects in Mexico this year, has become an embarrassment to President Ernesto Zedillo's government and its efforts to stamp out graft in procurement departments.

Construcciones y Auxiliar de Ferrocarriles (CAF) of Spain and its partners, Mitsubishi of Japan and ICA, Mexico's largest construction company, filed an injunction to the comptroller-general last week claiming they had been unfairly disqualified from the bidding.

Their disqualification left a consortium formed by Canada's Bombardier and GEC-Alsthom of France as the only bidder for the contract to supply 252 carriages for 28 metro trains.

The Mexico City metro, which carries 4.6m passengers a day, says it disqualified CAF and its partners because they did not meet its technical requirements.

"We studied the letter of rejection," says a senior CAF executive, "and decided to contest it point by point." To do so, it asked two external consultants, Frazer-Nash in the UK and ICF-Kaiser in the US, to review CAF's bid.

"Based on our review of all the documents," ICF-Kaiser reported to the comptroller-general's office, "we firmly believe there is no reason to reject any part of CAF's proposal or to disqualify them."

The comptroller-general has up to 45 days to issue a ruling on the dispute. CAF executives said they hoped they would be allowed to rejoin the bidding process, and expressed confidence that their final offer would be more competitive than that of their rivals.

CAF has won several contracts to supply the Mexico City metro since 1992, including one in 1995 in partnership with Bombardier and GEC-Alsthom.

NEWS: THE AMERICAS

Miami detectives hunt killer of top Italian fashion designer

Gay murder suspect eludes police

By Henry Hamman in Miami

Police throughout south Florida are searching for Mr Andrew Cunanan, the suspected gay serial killer and only suspect in the murder of Italian fashion designer Gianni Versace on Tuesday.

Mr Cunanan, who was already on the Federal Bureau of Investigation's 10 *Most Wanted* list, is alleged to have shot the flamboyant designer on the steps of his Miami Beach mansion and then walked away from the crime scene.

Federal, state and local authorities have all entered the massive manhunt for the 27-year-old male prostitute, who has already been charged in murders in three other states. Even before the Versace murder, federal authorities had been targeting their search for Mr Cunanan in the south Florida area.

The search for Mr Versace's killer quickly centered on Mr Cunanan, with police naming him as their only suspect just eight hours after Mr Versace's death.

Police said they had many eyewitnesses to the shooting, and they received a tip which led them to a parking garage near the Versace mansion, where they located bloody clothing and a pickup truck similar to one Mr Cunanan was said to have stolen from a New Jersey murder victim.

Mr James Chambliss, chief of investigative services for the state's department of law enforcement, said examination of the truck had produced "very strong" links between Mr Cunanan and the truck.

Officials have released few details of the manhunt, other than to say that they have "numerous leads". The local police said the Miami International Airport had been "effectively sealed off" to ensure that Cunanan could not escape by air.

Mr Chambliss said the investigators were hoping for information from the public to aid in the search. He said telephone hotlines had received "fruitful calls". "There are leads from all over," Mr Chambliss said.

Seeking to allay public fears that a serial killer was loose in their midst, Mr Chambliss said he did not believe the general public was at risk from Mr Cunanan, despite the fact that he has been described as "armed and dangerous".

"Anyone who's had previous contact with him" should be worried, he said. He turned aside questions about whether Mr Cunanan had met Mr Versace prior to the killing.

The suspect has been described by Mr Richard Barreto, Miami Beach police chief as "a known male prostitute who services a well-to-do clientele".

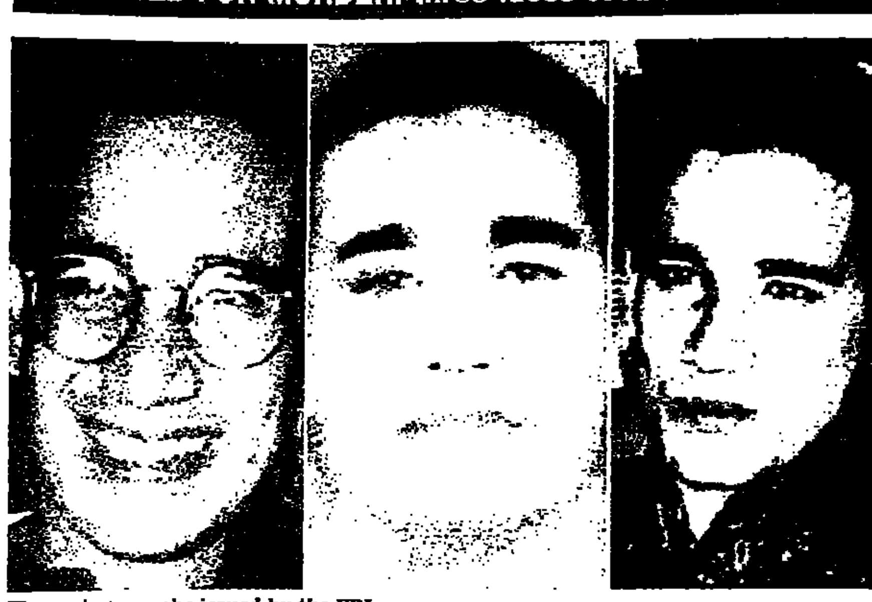
In recent weeks, police have put out thousands of circulars describing Mr Cunanan to south Florida's large gay and lesbian community, centered on the stylish south beach area of Miami Beach, an area of Art Deco hotels and trendy restaurants. Mr Versace's move to his beach-front mansion put the international seal of chic on the area.

Mr Versace's sister, Donatella, who is also a designer for the Milan-based fashion house, arrived in Miami late Tuesday night. Outside the Versace mansion, crowds of curiosity seekers mingled with mourners who placed flowers on the spot where the designer was gunned down.

Investment bankers said yesterday it was highly unlikely the Versace group would go ahead with its planned public offering – scheduled for this year. The group said it was planning a formal announcement on the offer.

Succession question grips Versace empire, Page 16

WANTED FOR MURDER: three faces of Andrew Cunanan



Three photographs issued by the FBI

Clinton acts to protect cyber-kids

By Louise Kehoe in San Francisco

President Bill Clinton has launched an effort to encourage computer and software developers to create a voluntary system for protecting children from pornography on the internet.

Executives from high-tech groups were invited to the White House yesterday for a "cybertots summit" to discuss new approaches with lawmakers and public interest groups. The move follows last month's Supreme Court decision to strike down a law banning indecent material on the internet.

The computer and software industries favour a voluntary technology solution to the problem of ensuring that young cyber-surfers are not exposed to sexually explicit or violent materials on the internet.

The Clinton administration, after being divided over the controversial Communications Decency Act, which the Supreme Court rejected as an unconstitutional hindrance to free speech, has now coalesced around the idea of a system of web site ratings, similar to those recently introduced for television programmes.

In combination with filtering software, the ratings system would enable parents, teachers and others to ensure that children in their charge could not find web sites containing material they deem to be inappropriate.

Several filtering programs such as CyberPatrol, Net Nanny and Surfwatch are already in widespread use. However, these depend either on the manual compilation of lists of "adult" web sites, or on keyword searches that look for terms suggesting a site may be inappropriate for children.

The latter approach has drawbacks because web sites presenting medical information, for example, may be blocked because they contain words describing the human anatomy.

Also, some pornographic web sites disguise their nature by avoiding the use of words such as "sex" or "nude".

Similarly, filter programs that rely upon lists of web sites are not foolproof because hundreds of new web pages appear on the internet everyday.

Microsoft, in an effort to meet growing demands to protect young users of the internet, has proposed a rating system for web sites. Microsoft's Explorer internet browser already incorporates software to detect invisible "tags" that could be used to label a web site as "family friendly" or adult in nature. The system, called the Platform for Internet Content Selection (PICs) has won widespread industry support.

Canada investors eye new foreign holdings

By Bernard Simon in Toronto

Canada's institutional investors are increasing pressure on the government to relax rules limiting their foreign holdings.

The Investment Funds Institute of Canada is assessing the impact of regulations that restrict the foreign content of institutions' investments and individuals' tax-sheltered savings to 20 per cent of assets.

The foreign content limit was raised in five stages from 10 per cent to its present level in the early 1990s. A report commissioned last year by mutual and pension funds suggested an increase to 30 per cent, roughly the level most fund managers favour for their portfolios.

Mr Paul Martin, finance minister, recently ruled out an early relaxation of the foreign-content rule. He said he was concerned at the "very high" proportion of Canada's debt held by foreigners, who could dump it at short notice.

But many institutions foresee growing difficulty finding suitable domestic investments in coming years, especially in fixed-income securities. Some investors, who favour a higher limit, have questioned the timing of any lobbying campaign by the mutual fund industry. The government is due to table legislation later this year for sweeping public pension reform.

Its proposals are expected to include the formation of an independent body to administer the Canada pension plan, opening the door for a gradual shift in investments from government debt to equities and other securities. Inflows into pension and mutual funds have swollen. But supply of federal and provincial bonds, a staple of most portfolios, is drying up.

AMERICAS NEWS DIGEST

Venezuela oil prices up 27%

Venezuela today will increase petrol prices by an average of 27 per cent in preparation for the opening of its domestic petrol market. The price adjustment is considered a prerequisite to the extension of an International Monetary Fund standby agreement, expected to be signed later this month. The increase fell short of IMF demands that the petrol price be the same as its export price.

The government has been hesitant to comply with such demands because of the political cost in oil-rich Venezuela, where motorists for decades have enjoyed highly subsidised fuel. Sharp petrol price increases in 1989 sparked street riots and looting, leaving hundreds dead in the capital Caracas. Yet despite a nearly 500 per cent increase in April last year, petrol is still cheaper than a bottle of mineral water.

The secretary-general of the leading labour federation CTV, Mr Carlos Navarro, said: "The government is committing a serious mistake in midst of attempts to reform the social security system." The CTV said the price adjustment could cause social tension and that it would seek its annulment. *Raymond Colitt, Caracas*

■ COLOMBIAN OIL

Attacks hit Occidental

Occidental Petroleum, operator of the Cravo Norte oilfields north-east of Bogota, Colombia, has stopped production and crude exports because of a wave of guerrilla attacks on oil infrastructure. The pipeline carries oil to the coastal terminal at Covenas and has been dynamited more than 35 times this year. Guerrilla activity has prevented repairs and clean-up operations in the last ten days. The Cravo Norte fields produce about 170,000 barrels per day, estimated at over 25 per cent of national output. *Sarita Kendall, Bogota*

■ PERUVIAN POLL

Fujimori's lead slips

Peru's President Alberto Fujimori is still considered to be the country's most powerful person, but his lead has slipped to an uncomfortable short head from his shadowy chief security adviser, according to an annual poll.

He has taken top place every year since local magazine Debate started publishing its survey in 1981, but this year Mr Vladimiro Montesinos has closed the gap. Although he has no official position, is apparently accountable to no one and is almost never seen in public, Mr Montesinos is constantly cited by government officials as the chief architect of the Fujimori regime's counter-terrorist successes. The career of this former army captain-turned-lawyer (who sold secrets to the CIA in the 1970s and was jailed before becoming a specialist in the legal defence of drugs traffickers) has taken an even more unsavoury twist of late.

After accusations that he took hefty pay-offs from cocaine barons, his tax returns were leaked showing annual incomeof some $600,000 – a small fortune in Peru. He and the National Intelligence Service of which he is the effective if not titular head, is widely assumed to be behind a big telephone-tapping scandal. "If the poll had been taken today instead of three weeks ago," said Debate's editor, He would "certainly have been named most powerful man of the year". *Sally Bowen, Lima*

NEWS: ASIA-PACIFIC

Taiwan nearer China break

By Laura Tyson in Taipei

Taiwan yesterday approved sweeping constitutional changes bringing the island a step closer to formally declaring independence from mainland China. The controversial reforms are likely to annoy Beijing, which regards Taiwan as a rebel province eventually to be brought under its control.

After months of horse-trading, the ruling Nationalist party, supported by the leading opposition in the National Assembly, passed constitutional revisions freezing the provincial government.

The provincial government is a symbol of Taipei's long-standing claim to represent all of China of which Taiwan is just one province. Its removal would be interpreted by Beijing as an assertion of Taiwan's independence.

The move paves the way for the eventual dismantling of the provincial government, starting with the cancellation of elections for the powerful post of provincial governor and the provincial assembly.

The government argues that the provincial apparatus, with dozens of lucrative enterprises and several hundred thousand employees within its purview, is an unnecessary drain on the country's economic resources.

However, its abolition has long been supported by the leading opposition, the Democratic Progressive party (DPP), which advocates Taiwanese independence and regards the scrapping of the provincial apparatus as a symbolic step towards independence.

The revisions would also in effect reduce the post of premier to that of presidential chief of staff, possibly paving the way for a promised cabinet reshuffle and the resignation of Premier Lien Chan. He is likely to be repaced by Mr Vincent Siew, a legislator and former planning minister.

Shanghai industrial profits slide

By James Harding in Shanghai

A sharp fall in profits in Shanghai's industrial sector and a further increase in the losses of state-owned enterprises in the first half of this year have marred the economic growth of China's most dynamic city.

Industrial output has risen rapidly, but with declining profits and growing stockpiles, the initial outlook for Shanghai's economy in 1997 suggests a swelling problem of overcapacity.

The figures reinforce anecdotal evidence from struggling businesses that have seen margins eroded by oversupply and will fuel concerns that the city's double-digit growth is looking increasingly precarious.

Shanghai's industrial sector saw a 12.1 per cent drop in profits between January and June compared with the same period in 1996, while industrial output grew 14.4 per cent to Yn269bn ($32.4bn) according to the Shanghai Economic Commission.

Mr Xu Zhiyi, the commission's director, said: "The only way to increase profits is to develop production and reduce costs. Funds will be given to key enterprises which have marketable products and firms which promise to stem losses."

The profits have been undermined by increased production costs, driven by rising raw materials prices and an increase in utilities charges, he added.

The commission's report this week contrasts with previous upbeat assessments of the local economy, including Mayor Xu Kuangdi's comments last week that Shanghai had exceeded its economic targets for the first half of the year.

Shanghai is aiming for a 12 per cent rise in gross domestic product in 1997, having achieved a 14 per cent increase in the first half of the year.

Losses in the state sector have risen 7.2 per cent year-on-year to Yn1.33bn in the first six months of the year, according to the economic commission's figures published in the Shanghai Star, the official newspaper.

About a third of the losses have come from industries in the chemical, electric, textile and light industrial sectors and a further Yn447m worth of losses have been racked up by bus companies and local utilities.

Rising industrial output appears not to have been matched by an equivalent increase in consumption, as municipal officials report that stockpiled products in the first half of 1997 were worth Yn30bn and accounts receivable had grown to Yn89.3bn.

As industries have rushed to install extra capacity to cater for the vast future potential of the Chinese market, a number of companies have seen prices collapse and stocks rise in heavily oversupplied sectors.

Banks assured on Thai credits

By Ted Bardacke in Bangkok

Foreign banks in Thailand have received assurances from Thai financial authorities that they will get "fair treatment" from the central bank with regard to their $1.5bn-$2bn in outstanding credits to 16 local suspended finance companies.

Foreign bankers are still awaiting details of what will happen to the companies before determining how they will alter their overall exposure to the country, said Mr David Proctor, president of the Foreign Bankers Association in Thailand.

The association's concerns have grown recently, after the assault on the baht forced its devaluation two weeks ago. Today, Mr Thanong Bidaya, Thai finance minister, is in Japan for talks with finance ministry officials and bankers about a rescue for his country's troubled financial sector.

Foreign creditors have $4.5bn-$5bn in outstanding credits to the 75 finance companies which are still operating and at least $70bn in credits to other Thai companies and financial institutions. Analysts say if these credits are not rolled over, Thailand could suffer a balance of payments crisis.

"Individual banks will very much react to their view of Thailand, Thai banks and Thai companies, based on how the issue of these 16 companies is resolved. This is not just a finance company issue," Mr Proctor said.

"There has been a substantial drain of liquidity from the system by foreign creditors. . . the priority of the authorities right now is to re-establish credibility and confidence. That is why the issue of the 16 is so critical."

Concerns that foreign creditors would be discriminated against intensified when the Bank of Thailand, in suspending the 16 ailing companies for 30 days, announced depositors would get first access to the companies' good assets.

Collateral has also been pledged to the Bank of Thailand in exchange for emergency liquidity support, which had unsecured foreign creditors worried they would be left to fight with Thai creditors over bad assets.

After meeting the governor of the Bank of Thailand and Mr Bidaya, Mr Proctor said there remained "no one plan" for dealing with the suspended companies, as the central bank needed time to study proposals submitted by the companies last week.

Baht flotation, Page 11

More Japanese back moves to be 'normal'

Several years ago, an influential Japanese politician, Mr Ichiro Ozawa, published a book urging Japan to become "a normal country".

As long as Japan was hobbled by its pacifist constitution, he argued, it would become steadily more isolated among the world's leading powers and end up an economic giant but a political pygmy.

Mr Ozawa had touched upon a long-standing taboo in Japan, unleashing unprecedented debate about the nation's role in the world.

Since then, the term "normal country" has become a euphemism for revising the constitution, which currently forbids the use of military force in international disputes and rules out collective security arrangements.

Mr Ozawa has been joined by a growing number of politicans who support revision, or at least amendment, of the constitution. The prime minister, Mr Ryutaro Hashimoto, comes from a hawkish faction of the ruling Liberal Democratic party and is known privately to favour overhauling the anachronistic security provisions.

The future of the document, drawn up under the post-war US occupation and promulgated in 1947, has become a factor in the emerging realignment of political forces. So, too, have related issues such as Japan's bid for a permanent seat on the United Nations Security Council.

The wording of the document remains unchanged to this day and presents onerous barriers to all manner of activities.

These include the government's plan to acquire the country's first spy satellites and the bid by domestic defence manufacturers to engage in joint development projects with overseas counterparts.

Each obstacle brings proposals for a new law. Already, a succession of new laws passed by parliament have loosened the accepted interpretation to enable Japan's armed forces to participate in UN peacekeeping operations – unthinkable even 10 years ago.

Additional laws since then have empowered the Japanese military to go overseas on disaster relief and emergency operations to rescue Japanese citizens.

Now, the government's defence agency has proposed laws to enable Japanese forces to "respond appropriately" to regional emergencies. The proposal, contained in the agency's annual white paper published earlier this week, was the boldest step yet taken by Japan's powerful bureaucracy.

Defence analysts see it as a direct response to US requests for Japan to provide support to US forces in regional conflicts.

The proposal to expand Japan's international security role has also lent momentum to calls for revising the constitution – even though the white paper stressed that new legislation should be "within the bounds" of the 1947 constitution.

Politicians such as Mr Ozawa reason that as each new law bends the accepted interpretation a little further, it renders the constitution a little more meaningless. "What will be the point of having a constitution at all? What respect will be left for the document?" asked a leading Japanese newspaper.

In the end, the biggest barrier to overhauling the document will be public sensitivity, rooted in the pre-war rise of militarism and Japan's record of atrocities during the second world war.

The safest route for politicians who support revision is to call for a public referendum on the issue. That is what the Hashimoto administration is likely to launch within the next year.

Gwen Robinson

ASIA-PACIFIC NEWS DIGEST

Seoul warns on border shelling

South Korea warned yesterday it would not tolerate any more North Korean "provocations" after two sides exchanged gunfire for half an hour in one of the worst clashes in recent years.

Seoul said the North used heavy weapons, possibly mortars or artillery, after South Korean troops fired warning shots when several northern soldiers approached their positions in violation of the armistice that ended the 1950-53 Korean war. Pyongyang radio said the North Korean soldiers were carrying out normal reconnaissance when the southern troops opened fire. The North claimed some of its soldiers were wounded.

Political analysts in Seoul speculated that Pyongyang might have staged the incident to gain concessions before preparatory talks with the US, South Korea and China in New York on August 5. *John Burton, Seoul*

■ HK ARRESTS

Banker on fraud charge

A former senior private banker at Merrill Lynch was yesterday charged by Hong Kong police with dealing with proceeds gained from illegal activities. Mr Kevin Wallace, who was fired by the US investment bank last in May, was arrested by Hong Kong's Commercial Crime Bureau – along with an unidentified local man – on July 6. Both were granted police bail.

Mr Wallace, a 46-year-old American, appeared in court yesterday and was charged with one count of fraud related to "dealing with property known or believed to represent proceeds of an indictable offence," according to the government prosecutor.

The charge is in relation to a bank transfer of about HK$7m ($910,000). A three-month adjournment, requested by the prosecutor in order to make inquiries in Singapore and Australia, was granted. Mr Wallace will reappear in court on October 16. *Louise Lucas, Hong Kong*

■ AIRLINE SUED

$1m for KAL 007 victims

Korean Air was yesterday ordered by a court in Japan to pay Y130m ($1.14m) damages to the families of four Japanese who died when its flight KAL 007 was shot down by a Soviet fighter in 1983 in the Russian Far East.

The judge said yesterday the airline had been negligent in letting the aircraft stray into Russian airspace. In the atmosphere of the Cold War at the time, any intrusion into Russian air space was likely to be viewed as a provocative step, the court said. The ruling marks one of the final chapters in the saga, which provoked international controversy because of the cold war backdrop. *Gillian Tett, Tokyo*

■ POLITICAL TRIALS

Indonesia bars monitor

Indonesia has barred entry to Mr Spencer Zifcak, an Australian law professor appointed to monitor a series of political trials by the International Commission of Jurists. The commission, a non-governmental body that collaborates with UN and European organisations, said the decision "increases concern about the fairness of the trials of persons who are in opposition to the government". *Peter Montagnon, Asia Editor*

CBI will come out in favour of the principle of a single currency but not joining in 1999

Employers to back late entry to Emu

By Robert Peston, Political Editor

The Confederation of British Industry will next week come out in favour of the principle of European monetary union but will say sterling should not join at the scheduled launch date of 1999.

Ministers were yesterday breathing a sigh of relief that the CBI, the employers' group which represents the UK's bigger companies, had backed away from calling for the pound to participate in Emu from the outset, since this would have cut across government policy. "I suppose it might have been problematic for our mutual love-in with Tony Blair [the prime minister]," said the chairman of one big company.

Mr Adair Turner, the CBI's director-general, yesterday gave the news to Mr Gordon Brown, the chancellor of the exchequer. Today he and Sir Colin Marshall – the CBI president and chairman of British Airways – will inform Mr Blair. Mr Brown will today attempt to demonstrate that the government retains a constructive attitude to monetary union by calling for a "serious debate" on the issue.

"Whether Britain is in or out, Emu will have profound implications for British businesses and the British economy," he will say in a speech at the Royal Institute of International Affairs in London.

He will announce that the Treasury is publishing an edited version of a treatise on the arguments for and against monetary union by Lord Currie, the Labour economist.

He will also disclose that the government is setting up an advisory group of businessmen and others to give advice to companies and the public sector on what they should be doing to prepare for Emu.

The CBI's Emu position is the result of a three-month consultation of its members, involving meetings of all its regional councils and committees.

They were presented with three options: that Emu entry should be ruled out for at least 10 years; that sterling should join "as early as practicable"; and that entry was "desirable in principle".

In spite of pressure from some of the CBI's biggest members – notably Mr Niall Fitzgerald, chairman of Unilever – members rejected the second option, widely interpreted as meaning sterling should join from the start, in favour of the third. It will be formalised at a meeting of its national council next Tuesday.

The decision is also a slight embarrassment to Lord Simon, the pro-single currency former chairman of BP who was an influential CBI member until he joined the government as a trade and industry minister two months ago.

A CBI member said that companies' views had changed slightly during the consultation process, after a series of events across the continent of Europe made it appear less likely that Emu would be launched on a sustainable basis.

Ministers end row over who controls funds

By David Wighton and John Kampfner

Mrs Margaret Beckett, the chief industry minister, has fought off a determined bid by Mr John Prescott, the deputy prime minister, to wrest away control of inward investment.

After a bitter turf war the prime minister's office has thrown its weight behind Mrs Beckett, who insisted that responsibility must remain with the Department of Trade and Industry.

The decision is a setback for Mr Prescott, who argued that the regional selective assistance budget, which subsidises inward investment, should be administered by his proposed network of regional development agencies.

A senior government official yesterday said: "The DTI is responsible for regional selective assistance and will remain so."

Control of money from the European Regional Development Fund will also remain with the DTI, although the agencies could act as the channel through which the funds are distributed.

A report from the Invest in Britain Bureau, the government's investment promotion agency, shows that foreign direct investment in the UK soared 24 per cent last year to a record £9.34bn ($15.59bn). Britain benefited from a string of new projects headed by plans from LG of South Korea to build a £1.7bn electronics complex in South Wales. The UK also saw a spate of expansion schemes from companies already established here, notably US, Japanese and German groups.

US companies accounted for investment worth £3.9bn, 43 per cent of the total.

A minister insisted yesterday there had been no argument between Mr Prescott and Mrs Beckett over control of inward investment. But a senior government official said Mr Prescott's "super-ministry" – which covers environmental, transport and regional responsibilities – had made a "quite aggressive play" for the funds.

But Mrs Beckett was not prepared to see the DTI's role as the main government interface with business diluted. A close colleague said: "We are absolutely determined to play a positive role in the development of the regional agencies, which must have a strong involvement with business. The DTI is the interface with business and will continue to be so."

Mrs Beckett's stand has been strongly backed by Mr Gordon Brown, the chancellor of the exchequer, who is opposed to the regional development agencies being given control of significant new funding. The DTI will retain control over the Invest in Britain Bureau, which administers the £100m ($169m) regional selective assistance budget.

Brendan Corr

Taking care of business: trade secretary Margaret Beckett will retain control of funds used to attract inward investment

Oil spill report lists catalogue of errors

By Charles Batchelor, Transport Correspondent

The Sea Empress oil disaster, in which 72,000 tonnes of oil spilled into the sea off south Wales in February 1996, was the result of a catalogue of mistakes which began with a misjudgement by the pilot guiding the tanker into harbour, the official accident report said yesterday.

Emergency services were overwhelmed by the scale and complexity of the disaster, the Marine Accident Investigation Branch said.

The report, into the longest and most challenging maritime emergency in British waters, found fundamental flaws in many aspects of the authorities' responses and made 24 recommendations for change.

Mr John Prescott, the deputy prime minister, whose responsibilities cover the environment and transport, ordered an immediate review of salvage and rescue procedures, and of the training and organisation of pilots.

The Environment Agency yesterday began criminal proceedings against Mr Mark Clive Andrews, the harbour master of Milford Haven, and of Milford Haven port authority.

Apart from pilot error and bad weather, which resulted in the salvage operation taking six days, one of the main causes of the disaster was the lack of sufficient tugs powerful enough and capable of being easily manoeuvred to pull the tanker free. There was also a lack of full understanding of tidal currents in the area. The pilot failed to keep the 147,000 tonne vessel in the deepest part of the approach channel to the harbour, the report said. The pilot's error was due in part to inadequate training and experience in handling big tankers, it added.

The pilot, Mr John Pearn, was found guilty of incompetence at a Milford Haven port authority inquiry last year and was demoted. He appealed successfully against the decision and was able to resume working with large tankers. The onshore team managing the incident became too unwieldy and communications with rescue crews on the ship were poor. The report recommended pilot selection and training should be improved.

It also called for a study of tides around the harbour mouth.

Friends of the Earth, the environmental pressure group, said it was considering a private prosecution against the Department of Transport for its role in the "botched salvage action".

Pension fund tax change attacked

By David Wighton, Political Correspondent

The government should go to the top of the pensions mis-selling "list of shame" unless it informs the public about the impact of Budget dividend tax changes, the opposition Conservatives claimed yesterday.

Mr Peter Lilley, the shadow chancellor of the exchequer, called on the government to ensure that every individual pensioner was made aware how they would be affected by the removal of the tax credit on dividends for pension funds.

The government had made a "£5bn smash and grab raid on pension funds" he claimed.

His attack came as the investment trust industry pleaded to be exempted from tax credit abolition.

In a letter to Mr Gordon Brown, the chancellor, the Association of Investment Trust Companies said the change would have serious side-effects which could drive some trusts to reduce UK equity holdings or go offshore.

In yesterday's Commons committee stage debate on the tax credit removal, the Conservatives focused on the effect on pensions. Mr Lilley said that the change would mean that some people who had rightly been advised to opt-out of Serps – the state earnings related pension – should now be advised to opt back in.

Taking a plunge in uncharted waters

Wessex has broken ranks on anti-pollution technology in expectation of stricter EU laws

Wessex, the privatised water group, announced this week that it planned to spend £28m ($47m) to install new treatment technology from Japan at two coastal sewage works.

It said the modified plants at Porlock and Swanage in south-west England would be able to fully disinfect sewage they pumped into bathing waters.

This level of treatment goes far beyond anything currently required by law. But Wessex has broken ranks with the other companies because it fears it will soon be forced by European law to reach much stricter pollution standards. The other groups say the levels Wessex is trying to reach are unnecessarily high and the technology it is using is not proven.

Mr Gareth Jones, director of quality and regulation, estimates Wessex has so far spent about £4m developing the technique. It plans to introduce it at other works which discharge effluent into bathing waters.

The company thinks the current review of the European Union bathing water directive will result in much lower limits for micro-organisms in sewage pumped out to sea. "Talking to the EU it became clear that there was a willingness to see standards tightened," says Mr Jones. "Within the foreseeable future I think it's going to be unacceptable to discharge bacteria and viruses."

The technique – microfiltration – uses membranes which are dense enough to trap the smallest organisms. "We came to the conclusion that membrane is the form of treatment for the 21st century," Mr Jones adds.

Last year 10.9 per cent per cent of Britain's 438 designated bathing waters exceeded EU limits for coliforms – bacteria which live in sewage and cause vomiting and diarrhoea.

Most companies kill coliforms and other micro-organisms with a combination of chemical and biological treatment and irradiation with ultra-violet light.

Mr John Hatfield, drainage manager for North West Water, says this process typically yields a 10,000-fold fall in coliform numbers.

He says raw sewage generally contains between 10m and 1bn coliforms per 100ml, leaving anything up to 100,000 bacteria per 100ml of sewage pumped out to sea. "If there were to be a change of emphasis on the bathing waters directive which required more stringent removals of bacteria and viruses then we would certainly have to look at some form of more severe treatment than we currently employ," he explains. "But we don't envisage a principle of complete sterilisation coming along."

He adds that the Wessex technique is "relatively unproven". "There are a couple of plants down in Australia which are using membrane technology but the efficacy of these and the operational costs are a little bit hazy," he says.

Mr Stephen Swain, at South West Water, agrees. "The initial results from this system are promising but we don't feel at the moment that we are sufficiently sure of the longer term proof."

He says the grants towards beach clean-up which the company receives from Ofwat, the water industry regulator, are not big enough to allow it to improve treatment standards beyond those required by law.

"If higher standards come along in future years we will already have the facilities to upgrade our works without looking for new schemes," he adds.

Mr Ian Walker, manager of the microbiology group at the Water Research Centre, an independent research and development consultancy, thinks the revised directive will ban sewage works from pumping effluent infected with bacteria and viruses into recreation waters.

He says companies might be forced to embrace microfiltration to prove they are not responsible for breaches of the new standards. "We have a large number of potential sources of bacteria and viruses ranging from the dog peeing off the pier to sewage discharges," he says. "It's extremely difficult to distinguish between the two. If a water company is wanting to defend its position it might want to demonstrate that it's producing zero bacteria and viruses."

Michael Peel

Britain's bathing sites

Bathing waters not complying with EU microbiological tests, 1996

Agency region		%
[illegible]		2.9
North-east:	Yorkshire	8.7
	Northumbrian	15.2
[illegible]		39.4
Southern		10.1
[illegible]	South West	8.7
	Wessex	2.4
Thames (3 sites only)		33.3
[illegible]		8.8
Average all regions		10.9

Source: Environment Agency

Ex-BP chief urged to quit government

By George Parker, Political Correspondent

Lord Simon, the former BP chairman, came under renewed pressure to quit his ministerial job yesterday after it emerged he approved an official paper covering issues affecting the company.

Mr John Redwood, trade spokesman for the opposition Conservatives, claimed Lord Simon, minister for trade and competitiveness in Europe, had become improperly involved in energy matters relating to BP, in which he retains more than £2m ($3.34m) shares.

This month the government insisted there was no clash of interest because Lord Simon was "not involved in any of the DTI's business which covers BP activity".

But Mr Redwood disclosed that Lord Simon had authorised an official document setting out the government's position on completing the European single market, including its views on the gas industry and biotechnology. "If liberalising the gas market and biotechnology have nothing to do with BP, then I'm a Dutchman," said Mr Redwood. "The DTI's assurances that no conflict of interest could arise are flimsy and lack credibility."

The DTI shrugged off the allegations, claiming the document was a technical paper which covered a range of issues and contained no new policies.

An official said the paper was simply an "explanatory memorandum", summarising a European Commission document on the single market for the benefit of parliamentarians.

"There is no conflict of interest in him signing this document," the official said.

Lord Simon's role in the government has been the subject of controversy since his failure to record in the register of members' interests his retention of his BP shares, although he has promised not to trade in those shares before January 1998.

UK NEWS DIGEST

Jobs figures fuel rate fears

The UK economy is generating jobs at an increasingly rapid pace, according to data published yesterday amid growing fears of a further rise in interest rates next month.

The headline rate of seasonally-adjusted unemployment fell by 36,500 in June to 1.6m, pushing the rate of unemployment down from 5.8 per cent to 5.7 per cent, according to the Office for National Statistics. Vacancies in June rose to 282,000, the highest level ever recorded. The ONS said yesterday that unemployment could soon hit the lowest levels in 17 years.

The rapid fall in unemployment underlines the current buoyancy of the economy and could add to the pressure on the monetary committee of the Bank of England, the UK central bank, to raise base rates from their current level of 6.75 per cent at its next meeting in August. It would be the forth consecutive monthly increase.

The June unemployment level was the lowest since April 1990, when it was 1.59m. If the trend continues, it could soon breach the previous record low of 1.5m in September 1980. The decline in UK unemployment has been so rapid that it may endanger future EU regional aid to the UK, according to the Alliance for Regional Aid, a pressure group for local authorities. Mr Stephen Fothergill, co-ordinator of the ARA, said: "Our current funding – £1bn ($1.67bn) a year for 1994-99 – is now seriously under threat because government figures understate the real extent of unemployment."

Other economists took comfort from the small fall in average earnings, which declined from 4.5 per cent in April to 4.25 per cent in May.

Other data out yesterday included the public sector borrowing requirement for June at £4.8bn, compared with £3.8bn in June 1996. *Wolfgang Munchau*

■ NORTHERN IRELAND TALKS

Sinn Féin contacts cause walk out

Mr David Trimble, leader of the pro-British Ulster Unionist party, is to seek an urgent meeting with Mr Tony Blair, the prime minister, after the smaller unionist parties walked out of yesterday's session of the Northern Ireland talks, angry at the government's renewed contacts with Sinn Féin, the Irish Republican Army's political wing. Both the hardline Democratic Unionist party and Mr Bob McCartney, the independent unionist, walked out of the session. The British and Irish governments last month issued a joint paper outlining its arms proposals which envisages that terrorists would hand over arms in line with progress in the talks. *John Murray Brown*

■ PROPORTIONAL REPRESENTATION

System to be adopted in Euro poll

Britain is almost certain to adopt proportional representation for the first time in 1999, with Mr Tony Blair, the prime minister, giving the go-ahead to plans to hold elections to the European Parliament under the system. The decision is expected to be ratified by the cabinet today. The prime minister's office said yesterday that while difficulties remained in meeting the deadline, Mr Blair was now prepared to introduce legislation in the autumn enabling the change.

The move ends a long period of uncertainty, in which advocates of PR, led by Mr Robin Cook, foreign secretary, had been in a minority in cabinet. "What people shouldn't do is imagine this says anything about PR for Westminster, because it doesn't," an official said. *John Kampfner*

■ FISHING QUOTAS

Spanish begin compensation claim

Spanish fishing trawler owners yesterday began a multi-million pound compensation claim in their court action against the UK government for being excluded from fishing in British waters. The Spanish fleet was banned in 1988 from registering in the UK to take advantage of the British national quota under the Common Fisheries Policy. In 1991, the ban was declared illegal by the European Court of Justice.

Mr David Vaughan, for the trawler owners, said the British government acted from political motives when it imposed the ban in spite of European Commission advice that the measure was unlawful. *John Mason*

■ DRINKS INDUSTRY

Code for alcoholic fruit drinks

Alcopops which breach regulations are to be "squeezed out of the market", the government will announce today, with the drinks industry's own voluntary watchdog launching a tough new code of practice. Shops and pubs will be urged to boycott alcoholic fruit drinks explicitly targeted at youngsters, with retailers who fail to respond potentially losing their licences.

Following the revamped code of conduct from the Portman group, the drinks manufacturers' regulator, the government's package stops short of an outright ban, but alcopop makers will be forced to submit new products for pre-launch vetting. *David Blackwell*

■ WATER INDUSTRY

Leakage rates decline by 3%

The privatised water companies this year reduced their leakage rates by an average of 3 per cent, according to figures released yesterday by Ofwat, the industry regulator. But Ofwat warned that companies had to make further progress. It also said it would investigate whether some companies overstated water consumption to make their performance on leakage appear better. The average amount of water leaked by the industry fell 9 per cent to 4,502Ml per day. Ofwat said this represented about 27 per cent of total consumption, compared with 30 per cent last year. *Michael Peel*

TECHNOLOGY

Caspar Henderson on meeting Europe's proposed stiff targets for renewable energy

Tall order for energy

Renewable energy accounts for just 6 per cent of the European Union's energy supply, but a forthcoming EU white paper may set a target of as high as 12 per cent by 2010. Can Europe's suppliers of renewable technology rise to the challenge?

The target sounds ambitious but, according to the European Union Renewables Energy Centres (Eurec) agency*, EU member states already hold advantages in many important technologies.

For example, more than three-quarters of the world's manufacturers of medium-sized and large wind turbines are European. German and Danish companies have achieved annual growth rates in sales of 50 per cent in recent years, while in Britain wind power is already delivered to the grid at competitive prices.

EU countries dominate the world market for small hydro equipment, with more than 80 per cent of worldwide sales for contracts greater than 1MW in recent years. In solar energy, the EU accounts for about one-third of world-wide photovoltaic (PV) module production and use, says the agency. Moreover, Europe has taken a leading position in photovoltaics integrated into buildings, with several thousand rooftop and facade systems from Finland to Spain. Europe also leads in applications of PV for developing countries.

Know-how on solar thermal power stations is among the foremost worldwide, leading the next generation of such stations with the Plataforma Solar de Almeria in Spain. The European glass industry leads in coating and windows technology. The European market for solar thermal domestic hot water systems is estimated to be Ecu500m ($560m) a year.

Leaders in several of the biomass conversion technologies are also found in European countries. Gasification is most advanced in Sweden and other Scandinavian countries, while Denmark is pioneering biogas production. European research and development on energy crops for electricity, heat and liquid fuels is also in a leading position. Biomass is likely to make the single largest contribution to renewable energy generation.

European research and development, much of it in Britain, has established a lead in the field of marine energy, says Eurec. Wave energy and marine current energy show the most promise, with Britain's International Centre for Island Technology, National Engineering Laboratory, Powerstream, Seacore and Scottish Nuclear among the leaders. The potential is enormous, says Eurec, but these remain the most immature of renewables technologies, and commercial realisation is likely to be at least 20 years off.

Colin Beere

Up with the sun: these solar panels were recently put on homes in east London

The variability of output is not a significant technical drawback for most grid-connected applications except PV, says Michael Grubb, an energy specialist at the Royal Institute for International Affairs. "Seasonal correlation between electricity demand and the availability of wind, wave and hydro power in most of Europe increases their value relative to equivalent constant output," he says.

Furthermore, he observes, the development of better technologies for monitoring, control, load management and small-scale storage open the possibility of realising such potential benefits through "distributed resource" electricity systems.

Eurec's optimism was shared by many participants at the World Sustainable Energy Trade Fair, held in Amsterdam at the end of May. Waste-to-energy power generation projects, which were not included in the agency assessments, were also hailed by speakers as an important transitional technology. The poor image these have had is no longer deserved, says Richard Sandbrook, of the International Institute for Environment and Development.

But some observers challenge the notion that Europe is in the lead. The race to commercialise photovoltaics is dominated by Japanese and US companies, says Paul Diamond, a co-organiser of the trade fair. A photovoltaic power station in Crete, which will be the world's largest if it reaches a proposed capacity of 50MW, is being built by the US company Enron, he notes.

Mark Woodall, director of Impax Capital, a venture capital and consultancy firm specialising in renewables, says many existing technologies already have the potential for profitable exploitation. The problem, he says, is that most companies developing them are underfunded and undercapitalised.

Ignorance of the potential of renewables is most to blame for this, says Woodall, but renewables "will go through a fundamental step change in the next year or 18 months". With growing demand from consumers and increasing pressure for a level playing field with subsidised fossil fuels, he thinks the provision of debt and equity capital to the renewables sector is bound to grow, and $750m worth of projects in the near and medium term would not be unrealistic.

For longer-term market success, the agency says an integrated Ecu1bn (£660m) research programme is essential. The effects from such a programme could be substantial. Energy for Sustainable Development, a consultancy which carried out a study for the European Commission called Teres 2, identified Ecu180bn of private and public investment that could be stimulated in the European renewable energy market by 2020 as a result of a "best practice" strategy for research, development and deployment.

* *The Future for Renewable Energy – Prospects and Directions, Eurec Agency, published by James and James, London 1997.*

A companion article, on Europe's policy options for renewable energy, appeared on June 4.

Sir Clive gets back on his bike

Three years ago, the irrepressible UK inventor Sir Clive Sinclair launched the Zeta (or Zero Emission Transport Accessory), an electric drive unit designed to fit on to any standard bicycle and take the effort out of cycling up hills.

The system worked well, with 15,000 units sold worldwide. But it was the size of a shoebox, had to be fitted to the rear wheel – forcing removal of the mudguard – and never managed to break into the style-conscious youth market.

Yesterday, his company Sinclair Research launched the Zeta II, a completely redesigned version. "It is much cheaper [£95 against £144.95 for its predecessor], much lighter and miles easier to fit," says Sir Clive.

The new device has taken three years to perfect, costing £125,000 for tooling against just £30,000 for its forebear. It uses the same basic principle, with a motor driving a rubber belt to achieve friction against the tyre.

But a new pulley system adjusts the belt pressure on the tyre to boost efficiency, while the motor unit is fitted to the front wheel and separated from the battery, which is stowed under the saddle or lower down on women's bikes. This gives much better weight distribution, says chief design engineer Alex Kalogroulis.

Shipments are due to start next month from Scottish-based Trilec, which made the original Zeta. At first, sales will be by mail order alone.

The launch comes two months after Sinclair unveiled the X1, a radio the size of a small coin, which fits into the ear.

Andrew Baxter

Neater Zeta: redesigned pedal power

Worth Watching · Vanessa Houlder

Antibiotics cut risk of heart disease

A common antibiotic cut the risk of recurring heart disease in a small group of heart-attack survivors with high levels of antibodies to a germ which causes flu-like symptoms and pneumonia, *writes Marjorie Shaffer.*

The group were part of a study that adds to growing evidence that an infectious agent may contribute to heart attacks and strokes. If so, antibiotics could be used in treatment.

Previous studies have found high levels of antibodies to the bacteria Chlamydia pneumoniae in diseased coronary arteries. Antibodies indicate that the bug has been present, and some scientists believe the infection may set off chronic inflammation, leading to blood clots.

The study, by St George's Hospital Medical School, London, funded by the British Heart Foundation, is the first to measure antibodies to the bacteria in heart-attack survivors and to monitor patients who took antibiotics.

Patients with the highest antibody levels had a four-times higher risk of heart disease than patients with no antibodies.

Azithromycin, an antibiotic, almost eliminated the additional risk in men with high antibody levels who took the drug, the study of 213 men found, according to Circulation, an American Heart Association journal.

British Heart Foundation: UK, tel (0)171 935 0185; fax (0)171 224 1868.

Kettle control just a phone call away

The ability to operate household appliances, heating and lights from outside the house could have obvious advantages to someone who is away from home or coming home late.

Even being able to operate appliances from another room could be useful in some circumstances.

The home automation modem, which has been developed by Philips Semiconductors, can control washing machines, televisions, dishwashers, radios, heating systems, burglar alarms and kettles. The modem is being incorporated into equipment, allowing it to be switched on and off from any point in the house, or remotely by telephone.

Philips Semiconductors: Netherlands, fax 402724825: http://www.semiconductors.philips.com

Asthma sensor now child-friendly

Increasing numbers of young children are developing asthma. But it is often difficult to be sure about the diagnosis because small children find it difficult to blow into the flow-meter used to assess the problem.

This drawback has been overcome with a sensor being developed with funding from the Action Research charity. The sensor, which is built into a face mask, is sensitive to the amount of nitric oxide in a child's breath, which in turn depends on the degree of inflammation caused by the asthma.

Action Research: UK, tel (0)1403 210406; fax (0)1403 210541.

Plastic tie takes the strain

A plastic tie capable of taking twice the weight of existing ties has been developed by Hellermann Insuloid, a subsidiary of Bowthorpe.

The company says the tie, which is designed to hold cables in offshore, underwater and other hostile environments, is unbreakable up to loads of 500lb, equivalent to the weight of two 18 stone men.

The tie is made from a thermoplastic polymer called Carilon, recently developed by Shell Chemicals.

Hellermann Insuloid: UK, tel (0)161 9988551; fax (0)161 9453705.

ARTS

Cinema / Nigel Andrews

Spielberg's plotless monster

THE LOST WORLD: JURASSIC PARK
Steven Spielberg

REMEMBER ME?
Nick Hurran

THE BUTTERFLY EFFECT
Fernando Colomo

LADY AND THE TRAMP
Hamilton Luske, Clyde Geronomi, Wilfred Jackson

Nietzsche would call it eternal recurrence. Hollywood would call it surefire box office. Sixty years after *King Kong*, movie man still labours under a compulsion to bring very big monsters to large towns, while movie woman labours under the responsibility to scream, wave her arms about and be picked up in the air.

Steven Spielberg's *The Lost World* is so lost that it has more inchoate energy, if less shape, than *Jurassic Park*. We know that logic is out to lunch from the first scene. "Beautiful day!" says the father of an English seagoing family picnicking on a gusty Pacific beach under a grey sky, shortly before his daughter encounters a deadly nest of reptilian throwbacks. And Nature is countermanded no less blithely in later jungle scenes, where giant Redwoods seem mysteriously to have stomped over from California.

With the folly, though, we get the ferocity: *The Lost World* knows that its mission is to spend 129 minutes jumping out at us and saying "Boo!". The first film's dinosaurs behaved with the orderly self-admiration of models on a catwalk. Here the slinky, long-necked Brachiosaurus, there the spike-maned, lolloping Stegosaurus: the Elle and Naomi Campbell of evolutionary primetime. Only the T Rex and 'raptors offered serious violence.

In the sequel, shot largely at night by Janusz Kaminski (*Schindler's List*), Jeff Goldblum's returning chaos theorist is decanted by fate and Lord Richard Attenborough into a neighbour atoll where almost every animal is loose and lethal. This Costa Rican refuge used to function as Lord A's genetic engineering backroom until an unforeseen hurricane. (How many scriptwriters does it take not to foresee a hurricane off Central America?) Goldblum comes to rescue his palaeontologist girlfriend, played by a screaming Julianne Moore. He stays to fight ravening digital or animatronic beasts while reading the riot act to the big-game hunters, led by Attenborough's hissable nephew (Arliss Howard), who want to gather a T Rex for the San Diego zoo.

Like most sequels, *The Lost World* has no plot. It is a free-association riff on the previous film's plot. There must be an endangered child (Vanessa Lee Chester as Goldblum's half-black daughter from some undocumented PC liaison). There must be a perilous safari, this time across the island's interior through velociraptor territory towards The Only Radio. And there must be a villain who runs into the woods to meet a fate worse than, but certainly incorporating, death. He is Peter Stormare, of *Fargo* and Bergman's stage *Hamlet*, impersonating a big-game hunter overrun by compsognathi (to you and me, piranhas on legs).

There must, above all, be dialogue you can wrap up and take away, piping hot, like fast food. "I'll be back in five or six days," bleats Moore to Goldblum. "No, you'll be back in five or six pieces," says Goldblum, who is in masterfully mannered form throughout. Did Spielberg cast him because he *looks* like a primeval predator? The bulbous fierce-focused eyes, the jagged teeth, the reptilian skin make him a match for any of the animals, who in turn are a match for anything you can imagine.

They lope vastly through clearings. They thrash and roar like earth-moving machinery. Best of all, the slyest of them slither invisibly through tall fields, their passage marked only by horrible moving shadowlines as they converge on the little human pilgrimage in centre screen.

There is inanity in *The Lost World*, but moments of genius, too. One scene is pure Spielberg, a horripilating use of the everyday. A character tumbles on to the window of an upended trailer hanging over a tall cliff. She can only lie flat while the fissuring glass spreads its web of disaster slowly around her. The darting motion and fizzing sound of each new crack may be the most inventive, literally shivery piece of film-making Spielberg has given us since *Jaws*.

None of the big animal scenes match it, least of all the desultory climax in San Diego. Couldn't the creature have found something more exciting to do than lope down Main Street like a bored sailor on shore leave? Then it is back to the islands for a brief, promising premonition of *Jurassic Park 3. Pterodactyls.* Remember where you read it first.

*

Remember Me? is the week's second dinosaur movie. This time the entire Michael Frayn-scripted film deserves a cumbersome Latin name, to accord with a plot which attempts to bring Plautus to West Byfleet. This comedy of errors involves Jamie (Robert Lindsay), a flash, Rolls-driving semi-stranger who drops in on "old flame" Lorna (Imelda Staunton) and her jobless husband Ian (Rik Mayall) with, as they say in publicity handouts, hilarious consequences.

As in all farces – and Frayn has written some good ones – the setting must fill up with incongruous characters joined by common disaster. So we have a horn-practising son, a pertly pretty daughter, a black boyfriend, a pair of hired killers and a middle-aged in-law couple who drop by for an afternoon nap en route to their boating holiday. (Do *you* know any couples who do that?).

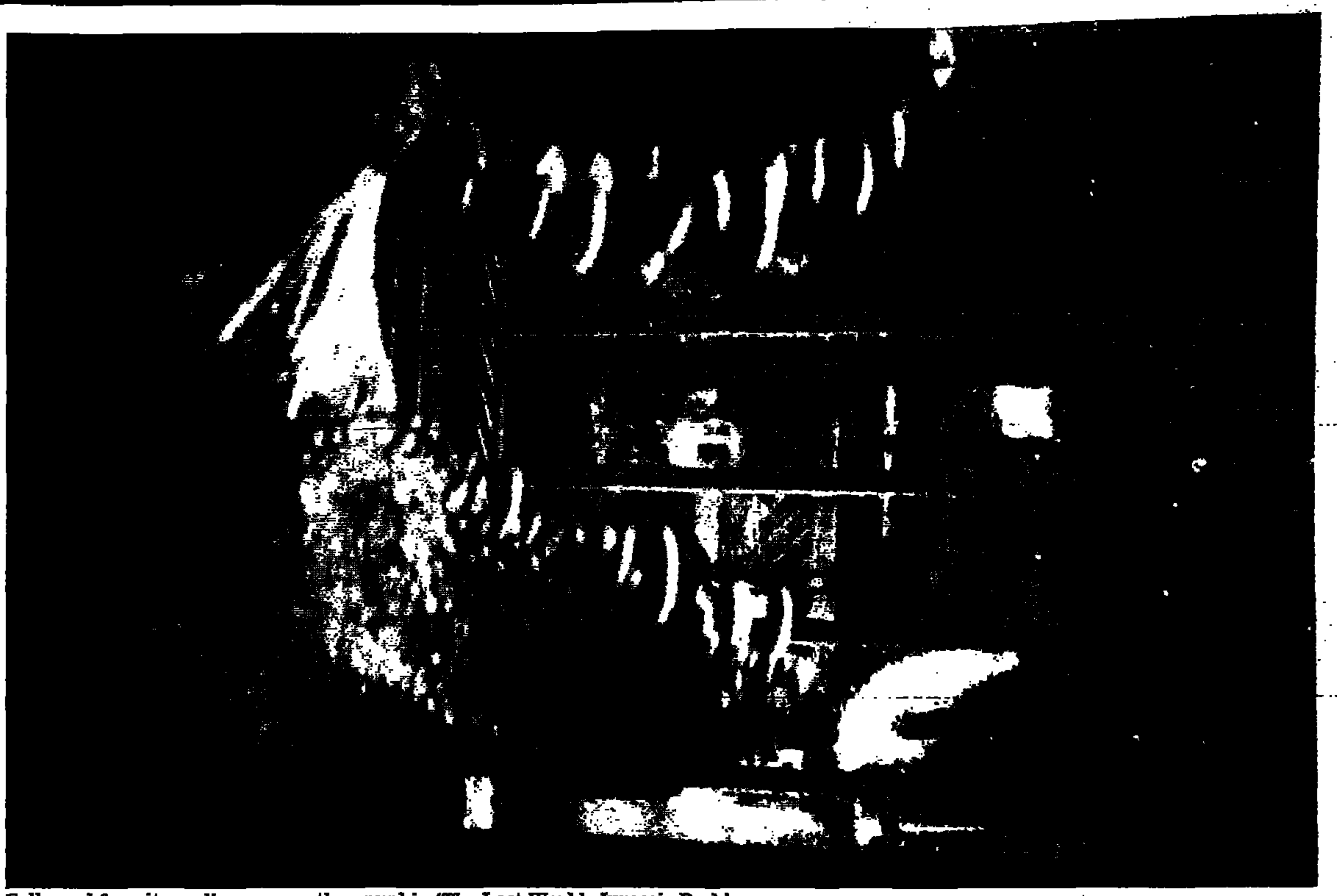
The plot accumulates but does not build. Since none of the ill-matched parties has any credible business in each other's lives, the house becomes like a railway terminus where everyone has been forced to say "Hello" to each other instead of boarding respective trains. By the time the Rolls had been stolen, the garage door smashed, the windows shot out and dear Brenda *Secrets And Lies* Blethyn, playing one of the drop-by snoozers, had fled yelping into the sunset, I was mentally composing my Monday afternoon shopping list.

*

Then came Tuesday. *The Butterfly Effect* is an Anglo-Spanish comedy about neighbours, in-laws and bi-national lovers messing up their lives in a Camberwell housing estate. Once more unto the communication breakdowns, the unexpected knocks at the door and trouserless chaps hiding from discovery. All the stuff of classic farce, done with unclassical ineptitude. Here, too, is James Fleet, who played the male drop-by snoozer in *Remember Me?*, giving us his giraffe-necked silly ass all over again, this time partly in Spanish. Nietzsche would call it eternal recurrence. Anyone else would call it the summer silly season.

*

Lady And The Tramp at least goes about its business with style, though business in the usual dog sense is the last thing the four-pawed lovers do here. Show Disney a lamp-post and it would quarantine it with hearts and flowers. There are a lot of songs, a lot of schmaltz, some funny supporting characters (manic Beaver, those Siamese cats) and goodwill all around.



Folly and ferocity: a dinosaur on the prowl in 'The Lost World: Jurassic Park'

Opera / Stephen Pettitt

Character study after Britten

Ambition is evidently something that Trinity College of Music's Opera Group does not lack. The meat of their oceanic end-of-year double bill, resourcefully directed by Stephen Langridge in the spartan surroundings of Spitalfields Market Opera, was a new opera by Diana Burrell, based on Susan Hill's short story *The Albatross*.

Burrell's piece takes several cues from the dominating shadow of Britten. Not least, it is a tale of an outsider in a fishing village, the simpleton Duncan Pike, who is dominated by his wheelchair-bound mother Hilda. There's the obligatory group of children, sweet at their games, sour at their taunts. A fisherman, Ted Flint, is no Peter Grimes figure himself, but a generous and strapping young sort, a golden-haired hero (promisingly sung by Julian Smith) who dies in an act of heroism.

He and the strange pram-pushing bag lady Beattie (Siobhan Mooney) are the only people in the fishing village who show Duncan any understanding, sympathy or encouragement. Everybody else reviles and teases him. After Ted's death Duncan rebels, struggling with himself to make decisions, and finally gives his mother an overdose and sets fire to their house.

Burrell's music poses a severe technical challenge, often too much for Trinity College's valiant instrumental ensemble, here conducted by Christopher Fifield. Since her imaginative instrumental writing carries so much of the work's weight, that is a crucial problem. Ingeniously, the role of Duncan is cast for two singers. One – Stephen Brown – functions as the inner voice struggling to dominate, still tormented yet without the physical timidity of his bodily manifestation. The outer person is portrayed by the appropriately small-voiced James Geer, who sustains well the clumsiness of Duncan's gestures, inviting our sympathy without transgressing the thin line that divides characterisation from caricature.

There are some superbly drawn character roles; Amanda Palmer is particularly impressive in the explosive, hysterical coloratura of Hilda as she shrieks her command for her son to cut his toenails. But, as a whole, the opera seems to have too much a sense of recitative – again with more than a hint of Britten – and not enough sense of aria. Perhaps Burrell has translated the story into its new form too literally. Yet Burrell manages successfully to penetrate the mind of the poor, frustrated boy, a signal achievement that bodes well for her future music-theatre pieces.

The evening had begun with Vaughan Williams' 1932 one-acter, *Riders to the Sea*, based on J.M. Synge's tale of Irish peasantry. The menfolk in the lives of two daughters and their mother have all, save one, died in the foaming briny, and this is the tale of how the last of them, Bartley, meets his watery end. The music, eloquently given under the direction of Anne Manson, sometimes recalls *Pelléas et Mélisande*, though without the scope, or flexibility of phrasing and harmony, of that work.

To be honest, it is rather dull. But it was ably sung, with Cora Newman as Maurya showing a huge and rich contralto-come-mezzo in the making and Julie Leyland and Julie Partridge as her daughters projecting radiant, though still small, soprano voices. The acting was not as good, but once everyone has wrung their hands and wailed, what else is there left for them to do?

Theatre / Ian Shuttleworth

Intimate Assassins

In 1990, the original production of Stephen Sondheim and John Weidman's *Assassins* played in a New York theatre which seated about 150 people. The reduction in scale to fit it into the New End Theatre in Hampstead, while appreciable, is therefore not entirely ludicrous.

In fact, Sam Buntrock's production for New Light Theatre Company is more than respectable all round, with a cast including the fine Peter Straker and a couple of actors (Garth Bardsley and Fiona Dunn) from the British regional premiere of the show in Derby, as well as Paul Keating, last seen in *Tommy*.

The atmosphere on stage is generally intimate rather than cramped, and Caroline Humphris' pared down keyboard and percussion arrangements (occasionally augmented by the trumpet playing of Stephen Watts as the Proprietor) never seem insufficient. Presumably Andrew Newey as John Hinckley Jr cannot actually play guitar, as the lead instrumental voice in the song "Unworthy of Your Love" is once again supplied by Humphris with an acoustic-guitar sound on her synthesiser. Nevertheless, the number remains a terrific subversion of romantic-duet conventions, as Hinckley and "Squeaky" Fromme (Dunn), the failed assassins of Presidents Reagan and Ford respectively, sing their hearts out to pictures of their beloveds, Jodie Foster and Charles Manson.

The show's high points remain in fine fettle: Sharon Eckman gets the lionesses' share of the laughs as Sara Jane Moore, the apple-pie mom who also had a pop at Ford, although Dunn's manic jabbering makes a particularly strong double act with her. Straker's Charles Guiteau – grander and more flourishing than I have ever seen the character – ascends the theatre's central aisle to the scaffold after disposing of President Garfield; his show-stopping number is exaggerated by numerous handshakes with audience members as he thanks them for "coming to my hanging".

It seems a little strange to have inserted the additional number, "Something Just Broke", at the opening of the show rather than in the Oswald-Kennedy sequence but the hiccup this generates in pacing is soon forgotten.

I was one of the minority of critics not especially impressed by Keating's performance as Tommy last year, and his portrayal of the Balladeer contains similar weaknesses; he has an excellent singing voice, but his characterisation once again inclines towards truculence, and his acting technique is at yet only partly formed – at present, when he wishes to seem to be doing less, he simply *does* less. Nor does Watts differentiate much between his main role as the Proprietor and his cameos as Presidents McKinley and Ford.

These, however, are flaws in the production rather than outright failures. Each successive production of *Assassins* continues to demonstrate just how mistaken was the original poor opinion of it as a musical portrait of the dark side of the American Dream.

One thing puzzled me. The stage was hung round with caricatures of the presidents who constituted the assassins' real and intended victims. The group included Bill Clinton. Does the company know something we do not? Surely that would be taking a publicity stunt a little *too* far . . .

New End Theatre, London NW3, until August 2. (0171-794 0022).

INTERNATIONAL ARTS GUIDE

■ AVIGNON

THEATRE
Avignon Festival
Tel: 33-4-9014 1414
● Chambre d'Hôtel dans la Ville de Nn: adapted from Gogol and directed by Valeri Fokine; at the Usine Volponi; Jul 17, 18, 20, 21, 22
● K.I. du "Crime": adapted from Dostoyevsky's novel by Daniil Guink. Kama Guinkas directs; Oksana Missina stars; at the Usine Volponi; Jul 17, 18, 20, 21, 22

■ CHELTENHAM

CONCERTS
Cheltenham Festival
Tel: 44-1242-227979
BBC National Orchestra of Wales: conducted by Tadaaki Otaka in works by Brahms and Beethoven, and a new work by Julian Anderson; Town Hall; Jul 20

■ LONDON

CONCERTS
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
● Bernard Haitink conducts the BBC Symphony Orchestra, Chorus and the BBC Singers in Beethoven's *Missa Solemnis;* Jul 18
● Nicholas McGegan conducts selections from Mozart and Schubert's one-act opera *Die Vershworenen*, performed by the Orchestra of the Age of Enlightenment. Soloists include soprano Hillevi Martinpelto; Jul 19
● World premiere of a new work by Michael Gordon and UK premiere of John Adams' *Scratchband* plus music by Steve Reich, Lou Harrison, Philip Glass and Frank Zappa. Performed by the Ensemble Modern and conducted by John Adams; Jul 20

■ MONTREUX

JAZZ
Montreux Jazz Festival
Tel: 41-21-623 4567
● Chick Corea, Gary Burton, Monty Alexander and Joshua Redman, in a programme titled All That Jazz; at the Auditorium Stravinski; Jul 17
● A Gala Night will provide the conclusion to the two-week festival of jazz and related disciplines; at the Auditorium Stravinski; Jul 19

■ NEW YORK

Lincoln Center Festival 97
Tel: 1-212-875 5030
CONCERTS
● New York Philharmonic at the Avery Fisher Hall. Music director Masur's 70th birthday is to be celebrated in a programme of popular favourites. With Anne-Sophie Mutter and other guest artists to be announced; Jul 18
● New York Philharmonic at the Avery Fisher Hall. Kurt Masur directs a programme exploring countercurrents to Wagner, featuring the rarely performed Mendelssohn oratorio *Die erste Walpurgisnacht* and the Brahms Violin Concerto; Jul 19, 20

DANCE
● The Royal Ballet at the Metropolitan Opera House: *The Prince of the Pagodas*. Music by Benjamin Britten. NY premiere of this three-act ballet, choreographed by Sir Kenneth Macmillan. Darcey Bussell is Princess Rose; Jul 18, 19
● The Royal Ballet at the Metropolitan Opera House: *Cinderella* – revival of Sir Frederick Ashton's ballet, set to Prokofiev's score; Jul 20

OPERA
● Palestrina: by Hans Pfitzner – the Metropolitan Opera House is the setting for the New York debut of London's Royal Opera and US premiere of Pfitzner's opera, which tells the story of 16th century composer Giovanni Perluigi da Palestrina. Tenor Thomas Moser leads a cast of more than 40 in this production, seen at Covent Garden earlier in the year. The conductor is Christian Thielemann; Jul 21

■ ROME

CONCERTS
Accademia Nazionale di Santa Cecilia Tel: 39-6-6880 1044
● Orchestra dell'Accademia Nazionale di Santa Cecilia: conducted by Myung-Whun Chung in works by Weber, Schubert and Beethoven; Jul 17
● European Union Baroque Orchestra: conducted by Roy Goodman in a programme of works by Vivaldi, Telemann, Bach, Quantz, Heinichen and Rameau; Jul 18

EXHIBITIONS
Palazzo Venezia
Tel: 39-6-679 8865
Feste a Roma: includes reconstructions of lavish, semi-permanent Baroque structures built to celebrate festivals, both religious and secular, which took place in Rome between the seventeenth and nineteenth centuries; to Sep 15

■ SALZBURG

THEATRE
Salzburg Festival
Tel: 43-662-844501
Jedermann: by Hugo von Hofmannsthal. Revival of Gernot Friedel's production, designed by Imre Vincze; at the Domplatz; Jul 20

■ SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-986 5900
● Arabella: Janice Watson sings the title role of Strauss's opera, in a new production directed by John Cox. The conductor is John Crosby; Jul 19
● La Traviata: Linda Brovsky directs this new production of Verdi's opera, set in the Parisian demimonde. Christopher Larkin conducts; Jul 18

■ SCHLESWIG-HOLSTEIN

MUSIC FESTIVAL
Tel: 49-431-567080
The Festival Orchestra: performs a programme including works by Mendelssohn and Brahms. Conducted by Hartmut Haenchen, with violin soloist Miriam Fried; at the Musikhalle, Hamburg, on Jul 20; and at the Theater, Itzehoe on Jul 21

■ TANGLEWOOD

Tanglewood Festival
Tel: 1-617-931 2000
CONCERTS
● Seiji Ozawa conducts the Boston Symphony Orchestra in works by Takemitsu, Mozart and Beethoven. With piano soloist Peter Serkin, baritone Mark Oswald, and the Tanglewood Festival Chorus conducted by John Oliver; at the Shed; Jul 18
● James Conlon conducts the Boston Symphony Orchestra in a programme of works by Britten, Bruch and Stravinsky. With violin soloist Itzhak Perlman, tenor John Aler, and the Tanglewood Festival Chorus conducted by John Oliver; the Shed; Jul 19
● Boston Symphony Orchestra: conducted by James Conlon in a programme of works by Mozart. With piano soloist Ignat Solzhenitsyn and soprano Ying Huang; the Shed; Jul 20

OPERA
● Les Mamelles de Tirésias: fully staged production of Poulenc's opera, directed by David Kneuss, preceded by two vocal chamber works by Ligeti; performed by the Tanglewood Music Center Vocal Fellows and Orchestra, conducted by Seiji Ozawa; at the Theatre; Jul 17, 19

■ VERONA

OPERA
Arena di Verona
Tel: 39-45-800 5151
● Aida: by Verdi. Conducted by Nello Santi in a staging by Gianfranco de Bosio, revived by Susy Attendoli. Casts vary; Jul 18
● Carmen: by Bizet. Conducted by David Gimenez, in a staging by Franco Zeffirelli. Agnes Baltsa and José Carreras recreate their famous double-act on Jul 19, 22 & 25
● Macbeth: by Verdi. New production designed by Pier Luigi Pizzi, with choreography by Gheorghe Iancu. Conducted by John Neschling; casts vary; Jul 20

■ WASHINGTON

CONCERTS
Wolf Trap Tel: 1-703-218 6500
National Symphony Orchestra: conducted by Elizabeth Schulze in works by Tchaikovsky, Prokofiev and Rimsky-Korsakov. With violin soloist Sarah Chang; Jul 17

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08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

COMMENT & ANALYSIS

Economic Viewpoint · Samuel Brittan

A plan to relaunch Emu

The only way to avoid violent currency lurches is to abolish separate currencies – Emu would do this for over half the trade of members

Few of us expected to see the day when an independent Bank of England would provide a better prospect for monetary stability than European monetary union. But then few of us expected that the Bank of England would be made operationally independent nearly as early as it has been.

The Emu side of the equation has changed even more. The original model was to provide participating countries with a Bundesbank on a larger scale. An unwritten part of the understanding was that Emu would start on a limited scale with France, Germany and those countries traditionally linked to the latter.

Two events have signalled the underlying change. The first was the attempt by the German finance minister Theo Waigel – he of the "3.0 per cent means 3.0 per cent and nothing more" – to make a cosmetic reduction in the German budget deficit by revaluing the gold reserves of the Bundesbank. This attempt has failed. But the lasting impression remains that the German government, so far from being the strict guardian of the Maastricht conditions, is now as willing to apply cosmetic surgery as any other government. The spring 1998 conference to select founder members of Emu may well have to go by forecasts, despite all the earlier emphasis on results.

The second big change was the victory of an unreconstructed tax-and-spend Socialist party in the French parliamentary elections. But the new government continues to insist that it will join Emu at the start of 1999.

A consequence of German and French budgetary cosmetics is that there will be no excuse for keeping out southern applicants, if by hook or by crook they manage to bring their budget deficits to within hailing distance of the magic 3 per cent number. France has already indicated that it positively wants them as founder members.

The British government is unlikely to join in this parliament and most Scandinavian countries will probably stay out too. So we are faced with the prospect of a central and southern European Emu with strings to Ireland and possibly Finland. This is what German public opinion most fears.

Let me try to avoid hypocrisy. In an ideal European monetary constitution, there would be no 3 per cent budget deficit limits. The world's most successful monetary union, the pre-1914 gold standard, completely lacked fiscal criteria: each country's budget was its own business.

In a modern monetary union the important consideration would be a judgment from an expert international institution, such as the European Monetary Institute, that the participating countries had achieved low inflation – over a period and not as a fluke – and could live with it.

The significance of the Maastricht conditions is now symbolic. If founder members cannot achieve an agreed and not unduly harsh fiscal objective at the outset, are we not all too likely to see a weak euro? By a weak euro I do not mean one that is lower against non-European currencies such as the dollar or the yen. There may even be a case for such a one-off depreciation to facilitate the adjustment in real wages required to price European workers back into jobs.

A truly weak euro would mean one that was weak and unstable in terms of internal purchasing power – one which like the pound and the franc in the 1960s limped along from crisis to crisis. This would be a defeat for the whole venture. One possibility is that, faced with this prospect, Germany will just draw back, despite Helmut Kohl's promptings.

Does it matter that the euro might either not take off at all or be so weak as not to be worth joining? It does. Quite apart from the political setback that a European monetary failure would bring, the present lurches in exchange rates are damaging. As any British exporter will confirm, stable domestic money is not the only goal. A sudden fall in the sterling/D-Mark exchange rate of over 20 per cent, when Britain left the exchange rate mechanism of the European Monetary System, followed by an even larger upward swing five years later, whose extent or duration is still in the lap of the gods, hardly creates an environment for the long-term investment about which the new British government speaks so much. Nor of course do these violent exchange rate movements reflect changes in costs or other fundamentals.

But experience first of shadowing the D-Mark and then with membership of the exchange rate mechanism strongly suggest that in today's conditions the only way of stopping violent currency fluctuations is to abolish separate currencies. This is a prospect which Emu, if it can be revived, offers for over half the trade of member countries.

Would not the prospect be transformed, however, if the British government surprised everyone by at the last moment agreeing to be a founder member? This would alter the whole likely shape. More Scandinavian countries would probably follow. Under a British lead, the European Monetary Institute could be left to determine with less emphasis on the budget deficit dogma whether countries further south had sustainable positions. And that would include not only Italy and Spain, but also France.

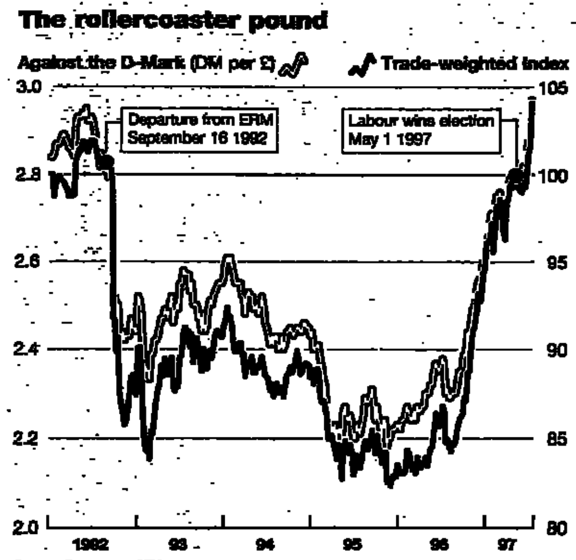
Above all the prospect of British membership would eliminate the desperate urgency of achieving the 1999 deadline. The importance of that deadline lies in the need to achieve Emu before Chancellor Kohl – who is now its driving force – is replaced by someone less committed. But if the UK became a leader of the project it would not be so utterly dependent on one German leader. My suggestion would mark a shift in the present Blairite desire to let others launch the project before deciding whether to join. My idea is that Britain would be a founder member after a referendum, but the exact dates would depend on reasonable conditions being fulfilled.

Such conditions could not reasonably cover an equalisation of unemployment rates, which depend so much on domestic policies. But they should require that countries enter at something approaching equilibrium exchange rates, as I have argued in *A Cool Look at the Euro* (David Hume Institute, Edinburgh). By this I mean that deficits or surpluses in the balance of payments should be sustainable without unemployment above that "natural" to the labour market of the country concerned.

But is not Emu primarily a Franco-German deal, making no sense without France? Maybe. The original deal also involved a French acceptance of an independent European central bank modelled on the Bundesbank with a low inflation target. My guess is that France will settle for the original low inflation arrangement, although with higher public spending.

A more difficult objection is that a single currency would not do away with the sort of stresses that are reflected, for instance, in UK short-term rates of interest being nearly 4 percentage points above German ones. Indeed they would not. The stresses would become transformed into temporary and local variations in a low European-wide rate of inflation set by the European Central Bank. This is just what happens in the US today if there is a property boom in California or a local slump in New England. But it does not require a United States of Europe to bring a similar result to the Old World.

The rollercoaster pound



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BOOK REVIEW · Edward Mortimer

THE LAST GOVERNOR – Chris Patten and the Handover of Hong Kong, by Jonathan Dimbleby
Little Brown, £22.50, 461 pages

Honourable role in dishonourable story

Jonathan Dimbleby, one of Britain's best known television presenters, has a house near Bath in the west of England. So does the Prince of Wales. So did Chris Patten until he lost his seat as MP for the city in the 1992 general election.

Both the prince and the former cabinet minister have made the journalist their friend and confidant, allowing him to film them in "private" situations, and baring their souls in long, wide-ranging interviews.

This has been of great value to Mr Dimbleby. His televised interview with Prince Charles and accompanying biography were best sellers. Now he bids fair to repeat the trick with Hong Kong's last British governor.

As soon as Mr Patten's appointment was announced in 1992, Mr Dimbleby persuaded him to grant virtually unrestricted access to Government House for himself and a camera crew. Mr Patten agreed "to discuss – for the future record – his strategy and his tactics at every stage", stipulating only that what he said would be embargoed until after the handover of Hong Kong on June 30 1997.

The fruits of that arrangement are now being shown to the British public in a five-part television series, the third part of which will be shown tonight on BBC1. But the accompanying book contains far more detail.

So much detail, indeed, that some readers may lose patience. To the outsider it remains baffling that such endless argument and so much passionate feeling revolved around some rather limited changes in the arrangements for a single election (that of the Hong Kong Legislative Council, or LegCo, in 1995) made by a colonial power that was, in any case, about to leave.

All the really important decisions and agreements about the future of Hong Kong had been made before Mr Patten arrived. So why did the then prime minister, John Major, send a leading politician to do a job previously entrusted to civil servants and diplomats?

Essentially because, after the 1989 Tiananmen massacre, people in Hong Kong were getting nervous. In 1991, in the first partially direct elections in the colony, advocates of democracy and critics of Beijing won 17 of 18 directly elected seats. Britain was at risk of being denounced in Hong Kong and around the world for handing over free people to communist rule with no serious attempt to represent or even ascertain their wishes.

Mr Patten hoped, by creative interpretation of the previously agreed Basic Law, to bring into being a genuinely representative LegCo which could continue through the handover. In this he failed. The Beijing leaders were unimpressed by his ingenuity in construing the text, and infuriated by his willingness to act without their prior agreement.

They on their side hoped, first to intimidate Mr Patten into withdrawing his proposals, later to persuade London to overrule or recall him. They too failed. The 1995 elections were held as he proposed, but China refused to recognise the LegCo so created. It has now been replaced by a temporary appointed body, pending new elections to be held next year under rules on which Britain will have no say.

Was this outcome worth all the fuss? Mr Dimbleby concludes that it was. Mr Patten salvaged Britain's honour in the closing phase of a fairly dishonourable story. He showed people in Hong Kong that at least part of Britain's ruling establishment cared about their views and was prepared to argue seriously with China on their behalf.

More important, he established benchmarks of democracy, human rights and freedom of expression by which the new administration will be judged, and helped bolster the courage which people in Hong Kong will need for any serious attempt to keep it up to those benchmarks. I do not envy those people their task, but I believe (and most of them seem to believe) that their chances are a bit better than they would have been without Mr Patten's efforts.

But then I, like Mr Dimbleby, am a friend of Chris Patten. Others, including most of the Hong Kong business elite and many in the UK who are professionally or commercially interested in China, believed Mr Patten was taking a terrible risk by annoying Beijing. Some even thought he was sacrificing the interests of Hong Kong for the sake of a good press.

Mr Patten was wounded by such comments. His difficult job was made harder by knowing that businessmen and some officials were bad-mouthing him and trying to undermine his policies. He reacted privately with waspish remarks, often cruelly witty. Mr Dimbleby makes many of these public, in a book he describes as "my own account of events and not 'authorised' by anyone", but which others will see as Mr Patten using a friendly journalist to settle scores, revealing quite a few official secrets in the process.

The effect may not be as good for Mr Patten's reputation as Mr Dimbleby evidently intends.

The Last Governor is available from FT Bookshop by ringing FreeCall 0500 500 635 (UK) or +44 181 324 5511 (outside the UK). Free p&p in UK

·LETTERS TO THE EDITOR·

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German gloom may put current European upswing at risk

From Mr Nick Tyrrell.

Sir, Peter Martin is in line with the consensus when he ascribes the current surge in German exports to the weak D-Mark (Global Investor: "In search of a miracle worker", July 14). But this story does not hold water: it does not explain why imports, too, have surged in Germany recently despite flat domestic demand. If the exchange rate were already beginning to have a marked effect on trade volumes (and this would run counter to past experience), we should expect imports to be slackening at the same time.

In our view, a key explanation of surging German trade volumes is a swing from de-stocking to re-stocking of industrial inputs by continental European companies, in anticipation of a recovery in underlying domestic demand during 1997. But these expectations have so far been unfounded. Uncertainties surrounding fiscal policy and employment prospects are keeping spending subdued, in Germany in particular. Unless this changes soon, there is a real risk the stock cycle will grind to a halt, spelling an early end to the current European upswing.

Nick Tyrrell,
director of forecasting,
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Switzerland

Attack on leasing will hit investment

From Mr John C.R. Lenton.

Sir, The article by Jim Kelly, "Tax avoidance move tilts the level playing field" (July 15), explains the damage to investment that will be inflicted by the attack on finance leasing but leaves open the question as to whether the attack was a clear part of the strategy of Gordon Brown, the chancellor of the exchequer.

I can find no mention of the word "leasing" in the Budget speech while the narrative in the Budget press releases implies that the Inland Revenue is concerned only with preventing what it perceives as the use of "subsidiaries with different accounting dates to accelerate allowances". That the proposed measure attacks all finance lessors was apparent only on close reading.

Is it unduly cynical to wonder whether there was a certain amount of "dissembling" in the pre-Budget briefing Mr Brown would have received concerning the tax avoidance measures inserted by the Inland Revenue.

After all, Mr Brown thought he was presenting a budget designed by himself to encourage investment, not a budget designed by the Inland Revenue to increase the cost of 20 per cent of all UK investment in plant and equipment.

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Unfair view of a changing industry

From Sir David Naish.

Sir, Your editorial "Alas, John Peel" (July 10) misrepresented the position of UK farmers. You state in your article how agriculture is of declining strategic importance, that consumers and taxpayers still support farmers, and that the taxpayer covered the main costs of the BSE saga. Taken individually all these points are true, but taken together they paint an incorrect picture of a declining industry refusing to face up to a changing world, living off consumers and taxpayers.

The industry has been hugely successful since the Common Agricultural Policy began and much structural change has taken place within the industry. It has responded to every government signal with astonishing productivity gains.

With the EU's negotiating position in the next World Trade Organisation round in mind, the NFU has advocated a move to bring EU farmers closer to world markets and enable them to compete in a more liberalised trading environment. But the industry will continue to require transitional assistance, although we realise that this support may be reduced in time along with similar support payments in other countries as part of a multinational programme within future World Trade Organisation trade rounds.

With regard to the costs of the BSE saga, I recognise that the taxpayer has had to cover many costs; for this the industry is very grateful. But not to recognise the costs currently borne by British beef farmers is hugely unfair. The export ban on British beef remains in place, the farm-gate price for beef is still more than 20 per cent lower than before the BSE crisis began and many beef farmers today are struggling to remain afloat. Many have already left the industry.

The NFU has taken an active and constructive part in the debate running up to the proposals to reform the CAP because we recognise the need for it.

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Psychology of Italy joining Emu

From Mr David Marsh.

Sir, When, and whether, economic and monetary union goes ahead will be decided not by economics, but by the three Ps – politics, psychology and practicalities, whereby the latter refers to the problems of getting banks' euro-computer systems to work on time.

So it pays to be wary of assessments of Emu probabilities based purely on economic calculations. Financial markets may well be anticipating a narrowing post-1999 interest rate gap between Italy and Germany ("J.P. Morgan calculator," July 15). This tells us simply that financial market operators, for the moment, are betting that yield gaps between Italian and German bonds will fall further in the next two years.

It is greatly exaggerated to deduce from this that "Italy's chances of joining the inaugural round of Emu in January 1999 have reached 75 per cent" (as stated in the article "Odds shorten on Italy joining front-runners in Emu stakes"). Italy's real chances of joining Emu in 1999 are surely much lower. The reason is simple, though it may be lamentable: the Germans are not inclined to share stewardship of their currency with a nation that they do not entirely trust.

In fact, your article confirms this by quoting Mr Avinash Persaud of J.P. Morgan as follows: "The more likely that Italy joins Emu, the more likely it is that Emu will be postponed."

If the "J.P. Morgan calculator" included some exotic calculation designed to take account of national psychology, it would more accurately indicate the likely outcome of the Emu saga.

I believe this denouement will be exceptionally tortuous.

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COMMENT & ANALYSIS

FINANCIAL TIMES
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Hard pounding

This is a time when traditionally strong currencies are weak and traditionally weak ones strong. But the managers of the US dollar, the Japanese yen and the D-Mark are happy with this turn of the great wheel of currency fortune. So long as their complacency lasts, those caught in the turmoil can do little more than grin and bear it. This is true for the emerging economies of eastern Europe and east Asia. It is just as true for the British.

The pound has appreciated by 38 per cent against the D-Mark from its low in May 1995 and by 32 per cent since last August alone. It is now well above its old DM 2.95 central rate in the exchange rate mechanism of the European Monetary System. British travellers abroad may love the appreciation, but exporters loath it.

Unfortunately for the British, Germans have become devaluation-lovers at last. Only yesterday, a government spokesman declared that "the rise of the dollar and sterling against the mark is improving Germany's competitive position and will boost growth and jobs without creating inflationary dangers". So competitive devaluations are wonderful, after all.

Vantage point

From the UK's relatively narrow vantage point, the most important external development is indeed the weakness of the D-Mark. Against the US dollar, for example, the D-Mark has depreciated by 24 per cent since its high point in April 1995 and by 18 per cent since last August alone. Yet the weakness of the D-Mark is not the best way to describe what has been happening. The striking feature is the strength of the US dollar against both the other two significant currencies. The yen, in particular, depreciated 37 per cent from April 1995 to April of this year, before rebounding.

Thus the strength of sterling can be broken down into its appreciation against the dollar and its appreciation with the dollar against third currencies. Since last August, sterling has only appreciated by 8 per cent against the dollar, from 1.54 to 1.67. Over the same period, however, it has appreciated by 32 per cent against the D-Mark.

Two questions arise: why are the European currencies so weak and why has sterling risen even more against them than the dollar, even though it is more vulnerable to European competition than the US?

To the first, there are two answers: the need of Europe's weak economies for a devaluation and the willingness of the authorities to embrace it; and the consequent desire of investors to flee European currencies.

To the second, there are also two answers: the habitual tendency for sterling to rise with the dollar when the dollar rises against the D-Mark; and the similar cyclical positions of the US and the UK, but with the UK apparently rather closer to overheating than the US.

Depressing conclusion

These rational explanations all have force. But they are not entirely persuasive. In particular, the increases in short-term interest rate differentials between the dollar or pound and the D-Mark or yen have been far too small to explain more than a small fraction of the appreciation of either the US dollar or the pound. There must have been a fundamental re-rating of these currencies, together with a speculative "bubble".

Unfortunately, this is just another way of saying that the reasons for such big exchange-rate shifts are far from understood. That is also not the only depressing conclusion. It is also clear that inflation convergence is not going to be enough to produce exchange-rate stability.

Still more depressingly, the fact that these huge swings are in part bubbles does not mean the British authorities can prick them – at least on their own. The Germans, the Japanese and the Americans appear content with what is happening. So long as the first two want weak currencies and the Americans are willing to tolerate a strong one, the British must live with their painful sterling dilemma.

Reforming the UN

Mr Kofi Annan owes his position as UN secretary-general to the US, which last year vetoed a second term for his predecessor. That gives him a certain strength, both in dealing with the US itself (which needs to show that its hostility to Mr Boutros-Ghali achieved something), and in dealing with other member states and the UN bureaucracy, which now know that without US support the UN is doomed to irrelevance.

Much, therefore, was expected of the reform package which he announced yesterday. It turns out to be worthy, but disappointingly modest.

Faced with fierce opposition from existing agencies, Mr Annan has retreated from the specific reform most touted in advance: the centralisation of all UN humanitarian activities under a single roof. He has had to content himself with giving his department of humanitarian affairs a co-ordinating role in emergency relief, while transferring its operational functions to "other entities that provide services on the ground".

More imaginative is his plan to win third world support for the cost-cutting on which the US Congress insists, by earmarking some of the proceeds as a "development dividend".

But the package as a whole shows how far from reality is the popular US depiction of the secretary-general as a dangerously powerful figure, responsible for what is wrong with the UN and able to put it right. In each area the initiatives promised by Mr Annan on his own account are very limited compared to the measures which "can be done with the support and approval of member states".

Legally obliged

In the past it was convenient for the US administration, and other governments, to exaggerate the power of the UN bureaucracy, in order to blame it, in such tragedies as Bosnia, for their own failure of will. So it is not surprising the administration now finds it hard to persuade Congress to pay the $1.6bn which the US owes the UN in arrears, and has to infuriate other member states by setting conditions for payments it is legally obliged to make.

At best, the Annan package will buy the US administration a short breathing space from Congress. But the time gained may be *very* short. The peacekeeping budget, which the UN in recent years has habitually plundered to close gaps in the regular one, is rapidly shrinking as UN peacekeeping is wound down, being replaced by ad hoc forces from regional organisations.

Single agency

Whatever time there is must be used for serious talks between the UN's leading members (the G8, plus China and perhaps India) about UN reform in a more positive and far-reaching sense: how the organisation can be better equipped to manage the increasing number of problems (such as nuclear security, climate change, drugs and transnational crime) which can only be tackled globally.

Mr Annan's plan to put all UN funds and programmes with development operations in a single group is a step in the right direction but not radical enough. There should be a single agency for sustainable development, bringing together economic and environmental programmes.

Congress's distrust of the UN, and indeed of international bodies in general, reflects a feeling that they do not reflect the reality of American power. Congress sees no reason why the US should tie itself down by pretending that other states, even those that are or aspire to be permanent members of the UN security council, are its equals.

Yet the US cannot escape the need for certain global issues to be managed multilaterally, especially given its eagerness to make others pay a larger share of the costs. President George Bush's "new world order" evaporated too quickly after the Gulf war. The US needs to rediscover an international sense of mission in time for the millennium.

Asian tigers catch a virus

Currency turmoil unleashed by the flotation of the Thai baht need not spell the end of the economic miracle, says **Peter Montagnon**

One calamity seems to follow another in Asia these days. After last year's export slowdown came strains in the region's banks as they struggled to cope with an overheated property market. Now several countries have been hit by currency turmoil and higher interest rates which are likely to stunt growth for the second year in a row.

But in the midst of the storm comes consolation from a surprising quarter. Mr Paul Krugman, of the Massachusetts Institute of Technology, the US economist who startled the region two years ago by forecasting an end to its traditionally high growth rates, says the upset is not the beginning of the end of the Asian miracle.

Instead, he says the region's troubles, which have seen central banks abandon efforts to support the Thai baht and Philippine peso as well as intense pressure on the Malaysian ringgit this month, are largely cyclical.

Last year's export slowdown came just as the hangover was beginning after several years of exuberant investment in the early to mid-1990s. "Booms like that in themselves bring on a crash," says Mr Krugman, who has coined a new word after the Thai currency – bahtulism – to describe the current Asian virus.

Still, the turmoil shows Asian economies are "not bullet proof" and their economic management has not been all it was cracked up to be, he adds. International economists say Asian governments must learn to be more flexible in dealing with global capital flows and increased competition.

On the surface, the case that Mr Krugman's depressing original scenario might be coming true looks beguiling. His theory claims Asia's miracle was founded "more on perspiration than inspiration". Its traditional high growth rates are the product of more and more investment and cheap labour rather than stepped up efficiency and productivity.

With last year's export slowdown, Asia appeared to be failing the challenge of boosting productivity and moving into more sophisticated manufacturing. Too little attention had been paid to the need to raise workers' skills, too much capacity had been created in the investment boom and too much hard-won savings had been dissipated in unhealthy property speculation.

But Mr Krugman himself says there is only a weak connection between Asia's present turmoil and his theory of a limit to regional growth. The idea was never that growth would end with a bang across the region as a whole. Instead growth rates would simply flatten out over a long period, he says.

One of the dangers, stressed repeatedly by regional experts, is that of generalisation. Thailand, many argue, is a special case. Its skills are weak because it neglected its education system for too long. Earlier this decade it embarked on a chaotic liberalisation of its financial sector. This clashed with its policy of linking its exchange rate to the dollar because a proliferation of poorly regulated financial institutions assumed it was safe to borrow at short term abroad. In the two years to 1996, foreign borrowing by Thai financial institutions almost doubled to $77.4bn, (£46.3bn) according to the Bank for International Settlements.

The totals for other countries are smaller. Though borrowing by Philippine banks has been growing fast it is from a very small base and the total outstanding was only $4.7bn at the end of last year. Borrowing by Indonesian banks actually fell last year by $1.1bn to $11bn.

Indonesia has also been spared the worst of the currency turmoil because it started as early as 1995 to widen the fluctuation bands for the rupiah against the dollar. Its central bank has thus not been driven to support a rigid exchange rate against the weight of market forces.

Even Thailand, with a history of strong government finance, has the capacity to recover, says Professor Rudi Dornbusch, another MIT economist. Its government "could afford to go out and get drunk" but it has managed its crisis poorly and must now sober up, he says.

The most urgent task is to deal quickly with the burden of bad loans on its domestic banking sector. Japan, where Mr Thanong Bidaya, Thailand's finance minister, is headed today, can help by restructuring loans to Thai banks and companies. As the country's largest foreign investor Japan has a natural interest in resolving the crisis, but its own record means it is poorly qualified to give advice on sound banking, says Prof Dornbusch wryly. That still requires help from the International Monetary Fund.

The latest difficulties aside, overall the Asian picture is still one of positive fundamentals. This is not a Latin American-style crisis. By and large Asian countries have strong fiscal positions and high savings rates. Most have manageable debt and growth is still higher than in Latin America.

"There is large room for these countries to grow," says Mr V.V. Desai, chief economist of the Asian Development Bank in Manila. There is no need for a crisis of confidence about Asian competitiveness.

But there are also inefficiencies in Asian economies as a result of excess investment and "wrong-headed, over-rigid exchange rate policies". The environment in which Asian economies have to operate is changing, he says.

Governments can no longer insulate themselves from international capital flows. Many tried too hard to stick to rigid exchange-rate policies with a close link to the dollar. That caused them first to stoke up the boom as domestic liquidity ballooned when capital flowed in during the mid-1990s. Then they could not cut their interest rates as the cycle turned for fear of accelerating capital outflows.

Last year's yen weakness proved another disadvantage in sticking to the dollar. Though the Japanese currency has strengthened again in 1997, it is still not back to its original peaks. South-east Asian countries have lost relative edge against Japan.

There is a risk that some currencies may fall further, says Mr Berhard Eschweiler, regional economist of J.P. Morgan in Singapore. But that will not be because they are intrinsically overvalued. Rather it reflects their greater openness to capital flows. "What's key is for governments to acknowledge that they have to have some more policy flexibility," he says.

More controversial is the notion advanced by some economists, including Mr Michael Taylor of W.I. Carr in Hong Kong, that the surge of investment in China has created surplus manufacturing capacity which is weighing on the region as a whole. Many Asian countries are trying to export similar products. There may be some crowding out, says Mr Krugman, but if South Korea built too many steel foundries then that has nothing to do with China. The same is true if Thailand over-invested in property.

China, which has been growing at a rate of almost 10 per cent a year has the scope to become a large market in its own right, adds Mr Desai. At present, though, China is hardly playing a locomotive role. While its own exports are recovering from last year's sharp slowdown, domestic demand is constrained by the losses at state enterprises and its sickly banking system.

The authorities are still too worried about inflation to relax credit further, argues Mr Hugh Peyman of Dresdner Kleinwort Benson in Singapore. Over 90 per cent of Chinese urban households have colour televisions and washing machines. Barring the advent of the two washing-machine family, the market for these consumer goods is saturated, he says, while fear of unemployment is sapping confidence in some regions.

But if China has disappointed as a market, it is still a formidable competitor for several Asian exporters, says Mr Desai. Its emergence will force them to step up their efforts to boost productivity and move their industries up-market. Not only is China supplanting even relatively poor countries like Indonesia in basic industries, such as textiles. The manufacture of inputs, like plastics, is moving there from more sophisticated economies such as Taiwan.

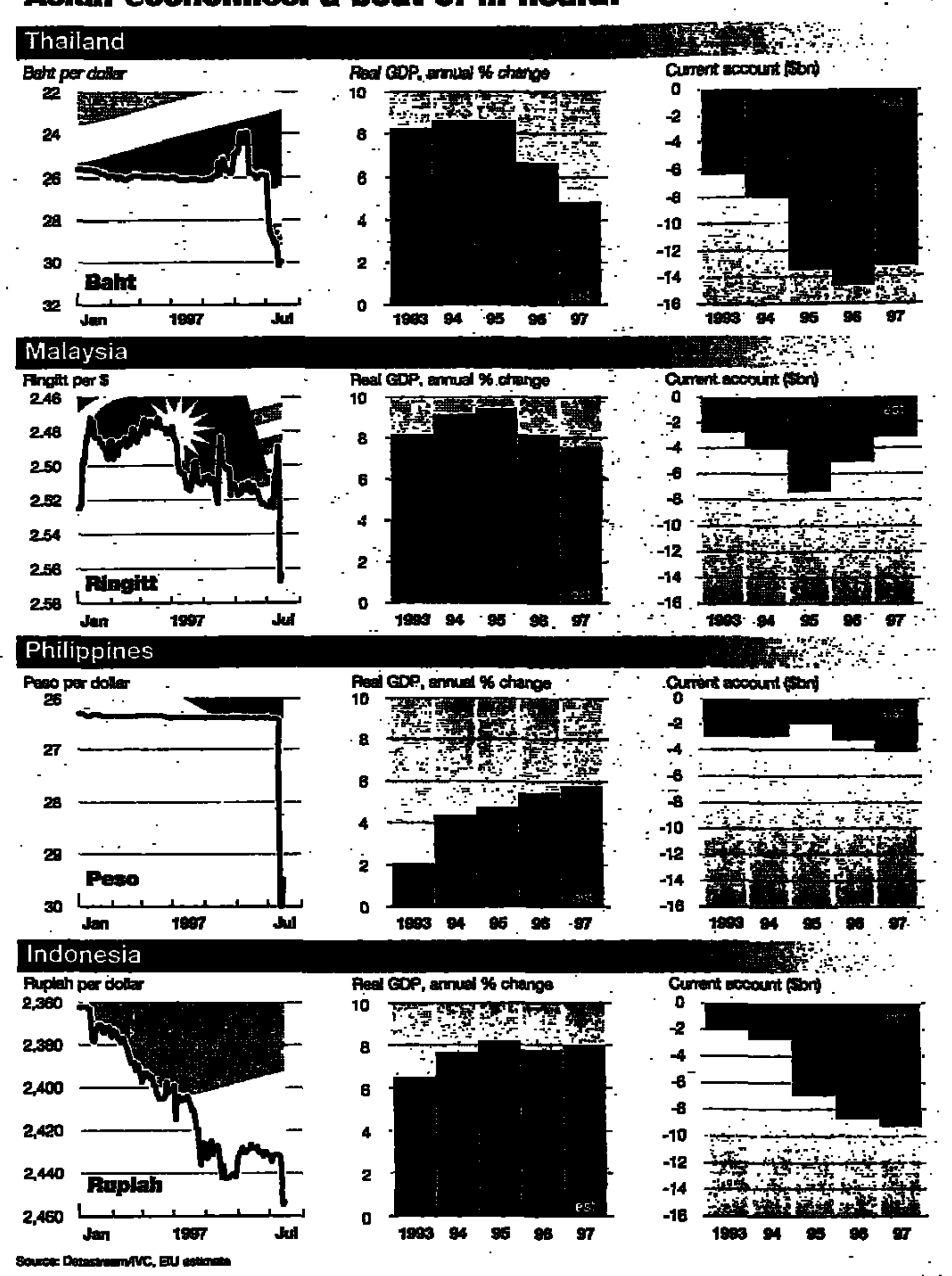
Mr Chen Zhao, managing editor of the Montreal-based China Analyst, says weak demand in both China and Japan have added to the region's surplus capacity. "Asians have set up a whole lot of excess capacity, and then all of a sudden they feel constipated," he says.

Competition has brought a remarkable swing in export prices for Asia (excluding Japan). Whereas they were rising at a rate of 10 per cent at the end of 1995, by the end of last year they were falling at an annual rate of 4 per cent. The swing is partly the result of weak demand in industrial countries but it also reflects "massive supply side expansion in Asia", he says. Devaluation may not be a panacea, but the risk of not devaluing is to bring on a recession, says Mr Chen.

At least there is a silver lining. By allowing their currencies to fall, says Mr Chen, Asian countries are exporting deflation. Since the price of their products will remain low, there will be less inflationary push in the industrial countries that consume them, and less pressure to raise interest rates.

As for Asia, it may take a couple of years for its economies to digest the excesses of the mid-90s. In a more competitive world they will need to be more nimble than ever before. The current downturn could even be healthy if it taught Asian governments of the need to manage their economies better, says Mr Desai, but "I only wish they had learned it at lesser cost".

Asian economies: a bout of ill health



Source: Datastream/ICV, EIU estimate

· O B S E R V E R ·

Top-level scrutiny

■ God has found a new way of keeping tabs on Mammon. The Vatican, the headquarters of the Catholic Church, has been admitted as an observer to the World Trade Organisation, one of the pillars of the international economic order.

The city-state enclave of Rome got the nod yesterday after a bit of a tiff with India, which argued that the Vatican had no commercial interest and that, under WTO rules, countries become observers as a first step to eventual membership. The Vatican says it doesn't want full membership, which perhaps is just as well – a full-scale dispute with clerics over imports of candles and altar wine hardly bears thinking about.

India was placated by assurances that letting in the Vatican wouldn't set a precedent. That doesn't seem to accord with the view of Egypt, Bangladesh, Pakistan and Indonesia, which welcomed the decision and went on to ask the WTO to dust off long-shelved applications for observer status from the Islamic Conference, the Islamic Development Bank and the Organisation for African Unity.

So why does the Vatican want in? Apostolic Nuncio in Geneva Monseigneur Giuseppe Bertello says the Holy See believes in "a world market organised with balance and good regulation" and "wants to offer its collaboration in helping to build an equitable juridical system in this important domain".

Plugged in

■ Wired magazine – the original *cyberhip* paper publication for the nerd generation – is untangling its management. From now on, supremo, publisher and editor Louis Rossetto will leave business strategy to others and concentrate his considerable energy on "content" – the stuff that fills the non-paying pages.

About time, some will say. Wired's two aborted efforts at public share offerings, its unsuccessful TV efforts and its cooling HotWired online ventures have raised questions about its management. Yet Wired has achieved worldwide recognition and developed a loyal following. With a few more besuited types at the top and Rossetto steering the editorial direction, it could yet reach higher voltages.

World wide wait

■ The European Commission, ever anxious to harness the information revolution and save trees, didn't rely on fuddy-duddy ink and paper to get Agenda 2000, yesterday's mega-report on enlargement, to an eager world. It referred the information-hungry to the Internet.

As every news organisation, from Helsinki to Heraklion tried their digital retrieval skills, a huge queue built up to get into the Commission's website. The Commission's own office in Slovenia, *one of the successful* applicants, had to wait in line online with everyone else for four hours.

Estonians, Czechs, Poles and others whose admission to the the EU anteroom was confirmed yesterday, will be hoping that their progress into the union is smoother than Agenda 2000's passage into the public domain.

Red letter days

■ Alfredo "Dirty Harry" Lim, the hardnosed mayor of Manila who earned his nickname as a no-nonsense police officer, is stirring up some trouble with his latest move against drug pushers. He's told police to paint "Beware. A pusher lives here. Go away" in big red letters on the appropriate doors. At the latest count, 213 houses had been daubed with the slogan.

But now the Philippines top legal association and Commission of Human Rights are asking the Supreme Court to put a stop to Lim's latest wheeze. The lawyers say it's "based on and begins with the same methods of illegality and arbitrariness" as Nazi Germany.

Others express quieter concerns. "This sort of thing is all very well," says a western diplomat. "But they're not going after the big fish, which include senior police officers. The people whose houses are being redecorated are just the small fry." Lim's not one to be deterred by strong words from lawyers or carping by foreigners – his "cleansing" of Manila's red light district several years ago attracted similar protests. He's pressing on with the paintwork.

Good citizen

■ Media tycoon Rupert Murdoch has been visiting China, where his plans to expand television services through Hong Kong-based Star TV are meeting resistance from the censorship-minded Chinese authorities.

Zhu Rongji, China's senior vice-premier in charge of the economy, in a good-humoured attempt to be helpful, reminded Australian-born Murdoch that he'd become an American citizen to satisfy US law regarding ownership of television stations. Now that he wanted to expand in China, Zhu suggested, his next move was obvious.

Financial Times

100 years ago

The Budget Of Japan
Japan is becoming more and more a factor to be reckoned with in the trade, finance and policy of the world. We have even been told lately that an offensive alliance has been entered into between Spain and Japan against the United States. The idea of such a strange combination making war upon the United States is, however, really too bizarre to be taken seriously, but even the suggestion of such an Alliance is evidence of the growing importance of this Far Eastern State, which only a few years ago was a negligible quantity in international politics.

50 years ago

Mr Morrison On Industries
Mr Herbert Morrison, Lord President of the Council, speaking at a Printing and Kindred Trades Federation luncheon, said he did not want to see Britain composed entirely of large-scale industries. He did not wish to see the individual crushed out. Whatever they were and whoever they were, they should all remember they were working for John Bull and for the good of Britain. The best way to face up to post-war difficulties was to say: "We are British and we are going to master them and get through to more orderly economic conditions."

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FINANCIAL TIMES
Thursday July 17 1997

US split as United Nations unveils reform proposals

By Bruce Clark in Washington

A reform plan for the United Nations, billed by its authors as the biggest change in the organisation's 52-year history, was warmly greeted by the US administration yesterday, but dismissed by some members of Congress as too little, too late.

Mr Kofi Annan, the UN secretary-general, presented a plan to trim the bureaucracy by merging or eliminating seven divisions of the secretariat and transferring resources from paper-pushing to development.

The plan identifies four key concerns for the world body – peace and security; economic and social affairs; development; and humanitarian affairs – and seeks to co-ordinate UN activities in each area.

Mr Annan, a Ghanaian diplomat who was appointed with strong US support, also called for the appointment of a deputy secretary-general and a cabinet-style administration. The number of posts at the level of under-secretary general, currently 27, would be slashed by a third.

Mr Bill Richardson, the US ambassador to the UN, greeted the proposals as a "very significant step towards structural reform" which would make it possible "to do more for the world's people, do it better and do it for less".

But the office of Senator Jesse Helms, the chairman of the Senate foreign relations committee who has led calls for deep cuts in UN bureaucracy, dismissed the plan as "incredibly modest" and "tinkering about the edges".

Senator Helms remained committed to a plan to pay off $819m in US arrears to the UN and other organisations over three years, subject to further rapid progress on reform, a spokesman for him said.

"Either Mr Annan has lost his nerve or he has lost a turf war," said the spokesman, Mr Marc Thiessen, who added that the modesty of yesterday's package would redouble the Senate's determination to keep pressing for cuts.

Kofi Annan: key concerns

Mr Annan denounced his Congressional critics for trying to dictate terms to the 184 other member states. "These unilateral demands do not impress, they do not intimidate, in fact they offend," he said.

In an apparent reference to Mr Helms, Mr Annan said that his package would "not please those who are trying to gut the UN" but they should be welcomed by those with a genuine interest in the organisation.

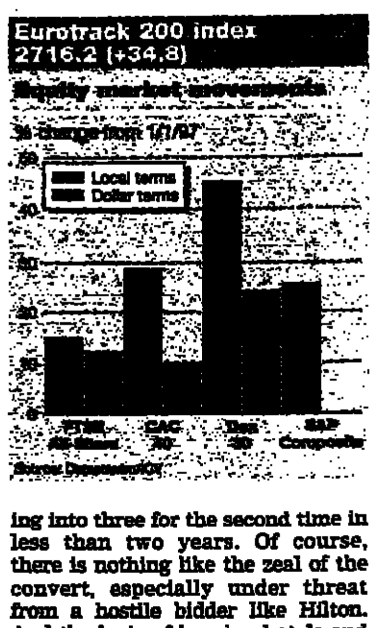
Mr Annan said that even with the promised US payments, "we are not yet out of the woods" in solving the financial crisis – which is expected to get worse as a peace-keeping fund, often raided to meet routine expenses, steadily dries up.

Annan unveils reforms, Page 4
Editorial Comment, Page 11

THE LEX COLUMN

Exuberant equities

The Dow Jones industrial average burst through 8,000 yesterday – a neat 25 per cent above the level at which Mr Alan Greenspan famously sounded the alarm about the market's "irrational exuberance". But it was hardly alone: the UK market stormed to a new record, as did Germany and France. You did not have to search hard for explanations. Consumer inflation at a 30-year low in the US was a powerful reminder of the goldilocks recovery which has driven Wall Street. Similarly, the dollar hovering around DM1.80, with Germany clucking its disapproval, reminded how weak currencies have helped power European equity markets.



Buoyant global liquidity has also played a part. Low interest rates have forced even cautious European investors to desert low-yielding cash and bonds for shares. This effect is underlined by the extent to which large stocks have outperformed smaller ones – by 15-20 per cent over the past year in most big markets. Retail investors prefer big-name stocks, as do institutional investors with large sums to invest.

All jolly exuberant. But what of valuations? On a price/cash earnings basis, figures from Morgan Stanley show the US market to be 51 per cent overvalued compared with its 10-year average. On a price/earnings basis it is 56 per cent overvalued. The picture in Europe is little different.

History, of course, is not a definitive guide to the future. And there is a case for richer valuations: sustained low inflation has made corporate earnings more predictable. This has pushed down the risk premium investors require to hold equities rather than bonds. If future cash flows are discounted at a lower rate, this makes them more valuable, allowing prices to rise further.

But at these levels, whatever upside remains is dwarfed by potential losses. Of course, the fact that markets are expensive is not a sufficient reason for them to fall. And no catalyst for a correction is at hand. Still, the laws of physics have not been repealed. When the correction comes, the double whammy of benign fundamentals and falling risk premiums works just as effectively in reverse.

ITT

ITT is turning into a stock market amoeba. What was, until recently, one of the world's most committed conglomerates is dividing into three for the second time in less than two years. Of course, there is nothing like the zeal of the convert, especially under threat from a hostile bidder like Hilton. And the logic of keeping hotels and casinos, telephone directories and educational services under one roof was always questionable.

But much of yesterday's 8 per cent jump in the share price can be put down to ITT's intention to buy back a quarter of its shares, as well as management's discovery of another $15m of costs to cut, rather than the demerger proposals. Indeed, the first three-way split – into insurance, industrials and the present leisure grouping – did not unlock any hidden jewels. The combined share price of ITT's three parts has risen 68 per cent since the group announced its first demerger in June 1995. That is less than the US market's 76 per cent rise, despite a substantial boost from Hilton's recent bid and yesterday's jump.

Unsurprisingly, ITT's plans will make life more difficult for Hilton. Spinning out the hotels and casino business – the bit in which Hilton is interested – on a tax-free basis will make it almost impossible to take over later without incurring a huge tax bill. Second, this business will have a staggered board, making it more difficult to eject incumbent directors. Most worrying of all, shareholders will not even get a vote on the demerger.

Formula One

Salomon Brothers' about-turn on BZW's role in Formula One Holdings' flotation is astounding. Only two days ago, Salomon, FOH's adviser, accused BZW of "very unblue chip behaviour" and threatened to remove it from the FOH flotation syndicate. Salomon's original remarks were intemperate. Still, it is puzzling why the US investment bank has had to backtrack so comprehensively.

In touting FOH shares to British Sky Broadcasting, BZW was stretching its role as a member of the flotation syndicate. Given that BZW is a BSkyB adviser, doing so potentially involved a conflict of interest – unless, that is, FOH had authorised the approach.

The question of whether there is any merit in an equity link between BSkyB and FOH remains. FOH certainly has an interest in cutting a deal with BSkyB to distribute its programmes in the UK, as it has with other pay-television operators like France's Canal Plus. But is there any extra advantage in BSkyB buying a stake?

One possible explanation is that BSkyB might be prepared to pay top dollar for FOH shares in exchange for a cut-price programme supply deal. The price BSkyB paid could then be used as a benchmark for what other shareholders would put up – helping relaunch FOH's stalled flotation. But would such a scheme really fly? Outside investors would presumably not be so naive as to think that, if BSkyB received a sweetheart deal, they should be paying the same premium price.

Raisio

Forget drugs; try magic margarine. Shares in Raisio have soared 53 per cent in two days after it signed a marketing agreement with Johnson & Johnson, which will allow the Finnish group's cholesterol-lowering margarine to be marketed in the US. This is biotechnology with the bio taken out. Raisio's fat-fighting Benecol marge addresses a huge market – Americans alone spend $33bn a year on slimming products. But, unlike drugs, it is easy to produce, needs only limited regulatory approval and can be sold without prescription. Raisio's biggest problem so far has been securing enough raw material, even though Benecol is only being sold in Finland as yet. Analysts hazard that a multiple of 50 times this year's earnings could drop to less than 10 times by 1999. Maybe it is not too late to place a spread bet.

Additional Lex comment on new issues, Page 18

EU may ban Boeing deal

Continued from Page 1

saying that Boeing had so far not met its concerns.

Mr Chirac said yesterday: "We strongly support the Commission on its position on Boeing-McDonnell. It could be extremely dangerous for Europeans." Mr Rexrodt said the 20-year exclusive contracts remained a problem.

It is still possible that Boeing will produce a last-minute alteration to the deal ahead of next Wednesday's meeting.

Another possibility is that Boeing will pre-empt the Commission's decision by withdrawing its notification of the merger. It would then have to re-submit a modified deal which took account of the Commission's concerns.

Industry observers say there would be little point, however, in Boeing re-submitting its merger proposal as the two sides have run out of compromises that would make the deal acceptable.

Boeing's shareholders are due to vote on the merger on July 25 – two days after the Commission is scheduled to take its final decision.

Brussels launches plans for changes in enlarged EU

By Lionel Barber and Neil Buckley in Strasbourg

The European Commission yesterday revealed a blueprint for uniting western and eastern Europe, creating a European Union of almost 500m people stretching from Barcelona to Bucharest and the Baltic states.

In a 1,300-page report named Agenda 2000, the Commission called for radical reforms to the Common Agricultural Policy, tighter rules on aid to poorer regions and a further constitutional conference to prepare for a union of more than 20 member states.

It told the 10 aspiring candidates from the former Soviet bloc that none currently meets the economic criteria for membership. But five countries – the Czech Republic, Estonia, Hungary, Poland and Slovenia – should do so soon.

The report sparked controversy among EU governments and disappointed candidate countries, and is likely to be revised before the first wave of accession negotiations – due to begin next year under the British presidency.

The French government criticised the CAP reform plans. Britain opposed plans to maintain special "cohesion" funds to countries which join economic and monetary union in 1999, an implicit warning to aspiring Emu members Ireland, Spain and Portugal.

Some governments, notably Denmark, are also uneasy about the recommendation to restrict the first wave of prospective entrants to the favoured five central Europeans, plus Cyprus.

Lithuania complained that the judgment lacked objectivity, while Romania said the EU was wrong to proceed with expansion in waves, along the lines of the Nato military alliance, which agreed last week to admit the Czechs, Poles and Hungarians.

Bulgaria and Latvia also failed to make the Commission's short-list on economic grounds, while Slovakia was the only country rejected on political grounds because of its human rights record.

Mr Jacques Santer, president of the European Commission, speaking to the European Parliament in Strasbourg, urged EU governments to seize an historic opportunity to unite the continent for the first time in 500 years. "This is not a process of excluding other countries. It is a process of inclusion which will be pursued permanently."

Agenda 2000 proposes tight budget management, holding EU spending until 2006 to 1.27 per cent of EU GDP, the level expected to be reached in 1999. Within this sum, the Commission proposes spending Ecu275bn ($302bn) on regional aid.

About Ecu45bn ($49bn) should go to the eastern applicants – a sum which Mr Santer likened to the 1947 Marshall Plan which the US disbursed for the reconstruction of western Europe after the second world war.

No turning back, Page 3

Dow breaches 8,000 as bull run lifts markets

Continued from Page 1

growth with declining inflation last month, according to reports published yesterday.

Consumer prices rose at a seasonally adjusted annual rate of just 1.4 per cent in the first six months of the year, the lowest half-yearly rate since 1986, the Labor Department reported. Meanwhile the Federal Reserve said industrial production increased by 0.3 per cent last month, the 15th consecutive monthly increase. Factory output grew at an annual rate of 4.4 per cent in the first half of the year.

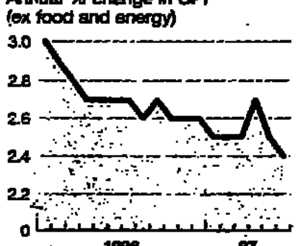
The weakness of consumer price inflation in the first half of the year was partly the result of falling food and energy prices. But even excluding these volatile components, the core price index rose at an annual rate of just 2.4 per cent in the period.

Although economists do not really know why the US economy seems able to grow without producing inflationary pressures, a number of theories have been advanced.

These include technology-related improvements that have increased the productive capacity of the economy; workers' insecurity about their job prospects that prohibits them from pushing for higher wages, and increasing globalisation of US business, forcing companies to hold down costs in the face of competition.

US 'core' inflation

Annual % change in CPI (ex food and energy)



Source: Datastream/ICV

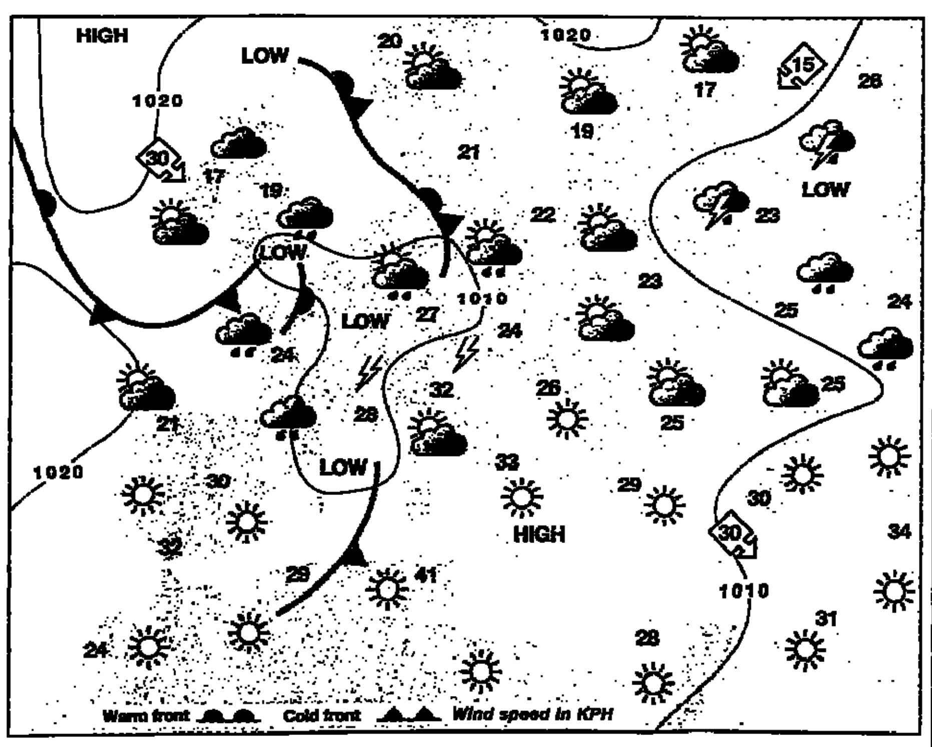
FT WEATHER GUIDE

Europe today

Rain and thunderstorms will cross the Alps and the eastern Pyrenees. Locally, the rain could be torrential, with a risk of flash flooding. During the day, the showers and thunderstorms will move into Italy.
More showers with thunder are expected along a frontal zone over eastern Germany.
Cloud associated with a new frontal zone will move from the Atlantic across the southern UK, northern France and Belgium.
It will be sunny and fair over most of the Iberian peninsula.
More sun and warm conditions are expected over large parts of Italy, Greece and southern Turkey.

Five-day forecast

It will be cloudy over central parts of Europe as an active low pressure system moves towards south-western Russia.
In the region from the Low Countries to France, there will be a mix of sunny spells and showers.
It will become settled across the UK and southern Scandinavia.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius										
		Beijing	sun 37	Caracas	thund 31	Faro	sun 27	Madrid	fair 30	Rangoon	thund 30
		Belfast	shower 17	Cardiff	drzzl 19	Frankfurt	cloudy 26	Majorca	fair 29	Reykjavik	cloudy 16
Abu Dhabi	sun 41	Belgrade	fair 25	Casablanca	fair 24	Geneva	thund 25	Malta	sun 32	Rio	fair 26
Accra	fair 26	Berlin	shower 23	Chicago	thund 32	Gibraltar	sun 27	Manchester	shower 19	Rome	fair 32
Algiers	fair 31	Bermuda	fair 30	Cologne	cloudy 23	Glasgow	cloudy 19	Manila	cloudy 34	S. Frsco	fair 23
Amsterdam	fair 20	Bogota	fair 19	Dakar	fair 29	Hamburg	rain 22	Melbourne	shower 13	Seoul	fair 30
Athens	fair 30	Bombay	shower 30	Dallas	sun 36	Helsinki	sun 21	Mexico City	shower 26	Singapore	fair 32
Atlanta	thund 33	Brussels	shower 22	Delhi	thund 33	Hong Kong	shower 28	Miami	thund 33	Stockholm	fair 24
B. Aires	sun 12	Budapest	fair 25	Dubai	sun 44	Honolulu	fair 32	Milan	thund 29	Strasbourg	cloudy 26
B.ham	shower 19	C.hagen	rain 21	Dublin	rain 19	Istanbul	fair 25	Montreal	fair 31	Sydney	sun 16
Bangkok	thund 35	Cairo	sun 32	Dubrovnik	sun 27	Jakarta	fair 32	Moscow	shower 18	Tangier	sun 25
Barcelona	shower 27	Cape Town	fair 19	Edinburgh	cloudy 17	Jersey	shower 18	Munich	fair 26	Tel Aviv	sun 31
						Karachi	fair 37	Nairobi	sun 23	Tokyo	shower 29
						Kuwait	sun 46	Naples	fair 31	Toronto	fair 32
						L. Angeles	sun 26	Nassau	fair 33	Vancouver	shower 21
						Las Palmas	fair 27	New York	sun 36	Venice	shower 26
						Lima	fair 25	Nice	rain 29	Vienna	fair 25
						Lisbon	sun 28	Nicosia	sun 32	Warsaw	fair 22
						London	rain 22	Oslo	fair 23	Washington	thund 35
						Lux.bourg	cloudy 23	Paris	shower 25	Wellington	shower 13
						Lyon	thund 28	Perth	sun 18	Winnipeg	fair 27
						Madeira	cloudy 25	Prague	fair 24	Zurich	thund 24

IN BRIEF

Valeo threatens foreign move

Valeo, the French automotive components group, has threatened to move more production overseas if the new government implements electoral pledges that the company claimed undermined productivity. Mr Lionel Jospin, the French prime minister, pledged to reduce the working week from 39 hours to 35 hours, with no loss of pay. Mr Noël Goutard, chairman and chief executive, said: "It is not part of our job to work in a hostile environment." Page 16

Argentina postpones $750 global bond
Argentina has postponed a $750m global bond citing "volatile" market conditions. The delay follows a bout of market jitters over the possibility of a knock-on effect from the currency turmoil in south-east Asia. Brazil's stock market steadied after falling 15 per cent over the previous two days. This contrasts with the Mexican market, up 45 per cent since the start of the year. Page 20; Wold stocks, Page 32

Ford reports record earnings
Ford Motor, the second-biggest carmaker in the US, reported record earnings of $2.52bn for the second quarter. The company predicted that the solid conditions in the US new vehicle market would continue well into next year. Page 16

LTCB shares reach exchange limit
Shares of Japan's Long Term Credit Bank rose by the maximum permitted amount on the Tokyo Stock Exchange as traders welcomed its planned alliance with Swiss Bank Corporation. LTCB shares rose to Y507, up Y80. Page 14

Time Warner revenues rise 25%
Losses at the Time Warner entertainment media group shrank to 9 cents per share in the second quarter, well below the 14 cents Wall Street expected. Revenues rose 25 per cent to $5.9bn and earnings increased to $1.3bn. Page 17

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Allianz	438	+	18
Heidelb Zem	161	+	6
Karstadt	663.0	+	37.5
Preussag	574.5	+	22.0
Falls			
Badenwerk	533	−	27
Varta	330	−	11
NEW YORK ($)			
Rises			
Applid Magnetic	34½	+	3⅛
Jim Chemical	21⅛	+	3⅛
Western Digital	43⅞	+	3⅞
Falls			
Dynatech	35⅞	−	3⅛
Eastman Kodak	69⅜	−	7⅞
Medeva	15⅛	−	2⅝
LONDON (Pence)			
Rises			
Cohen (A)	350	+	45
Greystone	79½	+	24
Nelson Hurst	179½	+	50
Falls			
Medeva	222	−	34½
Microgen	118½	−	31
Plasmon	92½	−	88½
TORONTO (C$)			
Rises			
Guardian Cap	32	+	4
Kadel A	3.85	+	0.85
Falls			
Golden Rule	1.04	−	1.16
Madsen Gold	2.0	−	0.8
Wescast A	44	−	4
ZI Corp	2.75	−	0.50

PARIS (FFr)			
Rises			
Club Med	442.7	+	18.3
Credit Nat	354.6	+	12.8
GTM-Entrepose	351	+	16
Suez-Lyon	700	+	31
Falls			
Bertrand Faure	314	−	11
Chargeurs	340.8	−	11.4
TOKYO (Yen)			
Rises			
Daiwa Bank	590	+	65
Hattori Seiko	804	+	48
Ind Bk Japan	1800	+	140
Komatsu	304	+	20
Tokyo Electron	7210	+	560
Falls			
Yuasa Corp	385	−	25
HONG KONG (HK$)			
Rises			
CDL Hotels	3.8	+	0.2
Falls			
Hopewell	4.9	−	0.2
SHK Ppt	88.50	−	2.25
Sino Land	7.45	−	0.25
TVB	32.7	−	1.7
Wharf Hldgs	31.6	−	1.4
BANGKOK (Baht)			
Rises			
PTT Exp & Prod	420	+	38
Shinawatra	226	+	20
Siam Com Bank	124	+	11
Falls			
Bata Shoe	93.25	−	3.50
Siam Steel	27	−	3
Thai Ind Gases	34.25	−	3.75

New York and Toronto prices at 12:30.

Kodak adds to results gloom

Shares down sharply on poor earnings

By Richard Waters in New York

Eastman Kodak, the photographic products company, shocked Wall Street yesterday with poor earnings for the second time in three months.

Shares in the company, which until recently was on track for one of the most impressive US corporate turnarounds of the 1990s, fell 10 per cent.

The company also warned about the outlook for the rest of this year. Mr George Fisher, the highly regarded executive brought in to lead Kodak's revival, said it would be "very difficult" for the company to report higher operating earnings in 1997 than 1996.

Kodak has struggled this year with the effects of a stronger US currency, which has reduced the dollar value of foreign earnings and eroded the value of exports.

This has been exacerbated by the company's heavy reliance on the UK as a European manufacturing base. Mr Harry Kavetas, chief financial officer, said the strong pound had hit export profits.

Kodak has also struggled in recent months with new products which it hoped would bring significant earnings, but which have proved very difficult to establish in the market. Losses from digital cameras and other digital products have risen this year, reaching $100m in the most recent quarter, in spite of earlier expectations that the company would move closer to profit.

The company's APS photographic system, which flopped when launched last year, has been relaunched, adding to Kodak's marketing burden.

However, Kodak said it would not back away from either initiative. Mr Fisher said the company was committed to its long-term target of raising its earnings per share by at least 10 per cent a year.

The company's earnings have also been dented in recent months by the fight with its arch-rival, Fuji, for US market share. Confirming reports that Kodak was losing ground in this battle, Mr Kavetas said the company's market share was "one or two per cent" lower than a year ago.

Wall Street reacted swiftly to the company's gloomy outlook by slashing its share price by $8 9/16 to $68 7/8.

Kodak's stock fell by a similar amount in April, after it released disappointing first quarter figures. The company said then that its problems were due to one-off factors, including difficulties in breaking into some emerging market countries.

The company reported after-tax profits of $368m, or $1.12 a share, compared to $449m, or $1.30 a share, the year before. Its revenues fell to $3.9bn from $4.2bn, but were down only 2 per cent after adjusting for the effects of a disposal.

Deal adds 18% more to Raisio shares

By Greg McIvor in Stockholm

Shares in Raisio surged again yesterday, adding another 18 per cent after the Finnish food and chemicals group's announcement on Tuesday that its cholesterol-cutting margarine, Benecol, would be marketed in the US by Johnson & Johnson.

The shares rose from FM478 to FM564.50 for a two-day increase of 53 per cent. Analysts said US and UK institutional investors, excited by Benecol's US market potential, had purchased large numbers of Raisio shares.

The agreement with one of the world's top health products groups for sole rights to use Benecol's essential cholesterol-reducing agent has rekindled interest in Raisio shares. Until this week, they had underperformed the Helsinki market this year. However, Raisio was the bourse's hottest growth stock in 1996 after Benecol became known outside Finland.

Mr Brian Perkins, president of McNeil Consumer Products, the Johnson & Johnson subsidiary that will market Benecol, said he had "seen very few things ... that represent this sort of opportunity".

McNeil expects to launch Benecol products in 5 per cent of the US market next spring and to cover the whole country in early 1999. Some 100m Americans suffer from high cholesterol.

The key ingredient in Benecol is stanol ester, a plant-based byproduct of processes such as wood-pulping and vegetable oil extraction. Raisio's ability to obtain enough raw materials needed to make stanol ester had been questioned following production bottlenecks last year. But McNeil did not expect problems with supply. A production plant is to be built in the US, but it is unclear how well it will meet market needs.

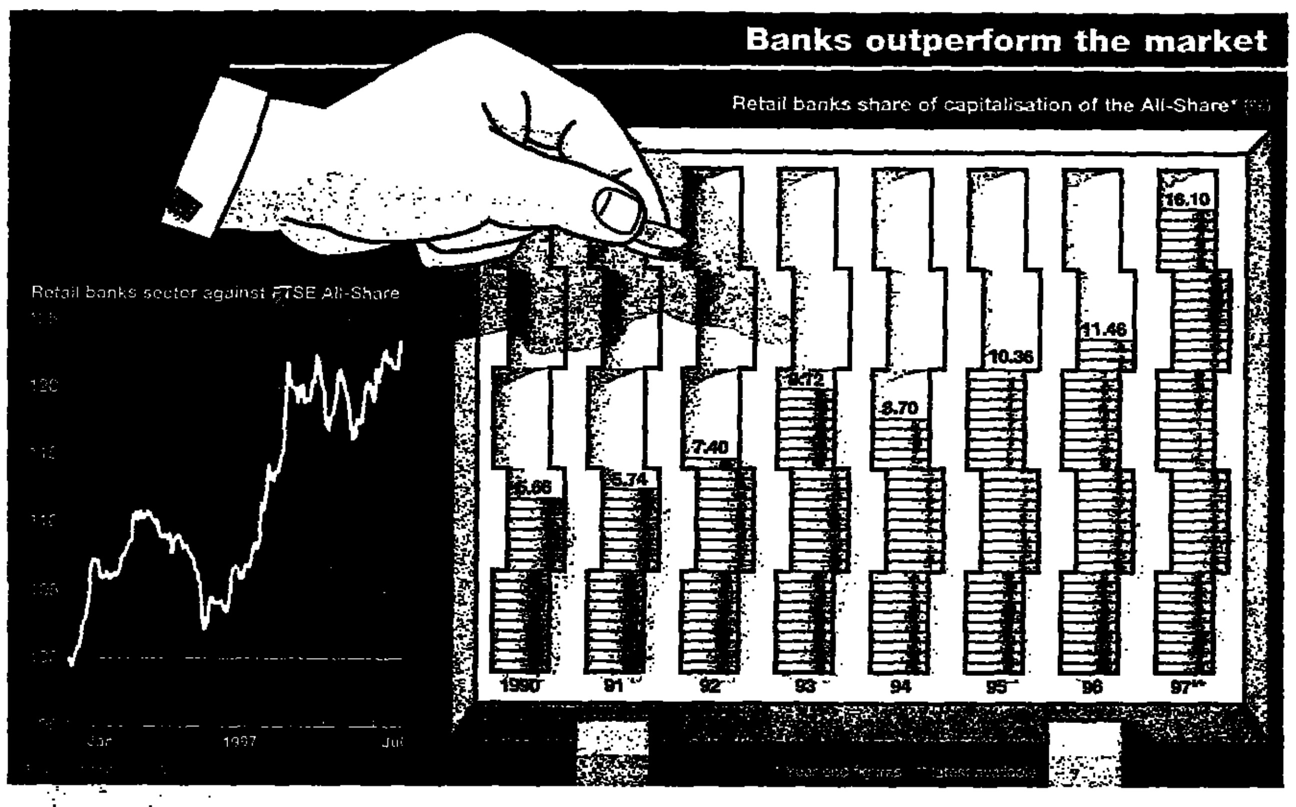
McNeil plans to use stanol ester in five or more products, including margarine, but has not yet decided which. It can be used in any food containing fat, so potential products include salad dressings, cooking oils, chocolate and ice cream. The link with Johnson & Johnson will make it easier for Raisio to get approval from the US Federal Drugs Agency to sell Benecol.

Lex, Page 12

British banks rise to new peaks

Investors show confidence that finance sector will stay strong

By George Graham and Peter John in London



UK banks' share prices rose to new highs yesterday as investors shrugged off worries that the economic cycle might have started to turn sour for the financial sector.

With first-half results for most of the larger UK banks due to be announced over the next month, HSBC, the world's largest banking group, gained 3.1 per cent to £21.51p, with Lloyds, National Westminster and Barclays also advancing strongly.

HSBC's market capitalisation has doubled in the last 12 months and yesterday reached £56bn ($93.52bn). In the last week alone, it has increased by £5bn, more than the entire market capitalisation of blue chip companies like Allied Domecq or Safeway.

Lloyds TSB, too, has doubled in value, and the banking sector now makes up almost one third of the FTSE 100 index.

But with the sector as a whole now trading at around 16 times forecast 1997 earnings, some investors have begun to worry about the long-term prospects for their holdings.

Much of the strength of bank shares in the last six months has stemmed from the arrival of converting building societies to the stock market. Since institutional investors held no shares in Halifax, Alliance & Leicester or Woolwich, they have been scrambling to build up their stakes.

"There is a visible premium for scarcity," said Mr John Aitken, banking analyst at Union Bank of Switzerland in London.

Individual stock options in most of the big bank stocks expired yesterday. With FTSE index options also expiring tomorrow, dealers who had sold contracts beforehand and needed to buy them back before expiry had to scramble to cover themselves.

Speculation about the possibility of further consolidation in the sector has also propped up some share prices, although few deals appear workable at today's high valuations.

But, in the eyes of many analysts, these higher valuations are fully justified by favourable economic conditions and strong prospects for earnings and dividends.

Few economists expect a return to the double-digit inflation and interest rates seen at the end of the 1980s, which played havoc with banks' borrowers and required heavy bad debt provisions.

"The economy is stable, so for the first time in 20 years banks are masters of their own destiny," said Mr Simon Samuels, banking analyst at Dresdner Kleinwort Benson.

Mr Samuels argues that the prospects are brighter for some banks than for others. Whereas two years ago almost all banks traded on the same price/earnings ratio of 10.5, the sector today sees multiples ranging from 11 for Barclays to 17 for Halifax and Lloyds TSB.

There are some clouds on the horizon: earnings growth is expected to slow from the 20 per cent recorded last year to around 10 per cent this year and next – and that rate is flattered by the strong growth still enjoyed at HSBC.

But with the sector generating a post tax return on equity of about 19 per cent, well above of the market as a whole, many investors believe banks can continue upwards.

"There is a genuine stock shortage, and that is certainly contributing to the rise, but the fact that nobody wants to sell tells you something, too. I think the shares are as good as this in reality," said Mr Robert Law, banking analyst at Lehman Brothers.

London stocks, Page 28

ITT plans three-way split and $2.1bn share buy-back

By Tracy Corrigan in New York

ITT Corporation, the US hotels and gaming group, plans to split into three and buy back $2.1bn of shares in a move that could thwart Hilton Hotels' long-running bid.

The split, which will not incur any tax liability, will create three new companies: ITT Destinations, a hotels and gaming business with the Sheraton and Caesars brands; ITT Corporation, a holding company for ITT World Directories, a publisher of telephone directories and classified information; and ITT Educational Services, which runs 60 technical institutes.

The announcement sent ITT's share price up $4 1/16 to $67 1/16 at midday. It is the company's second three-way split in two years.

Hilton Hotels launched a $6.5bn bid for ITT in January, valuing the company at $55 per share. Since then, ITT has embarked on a programme of asset sales, including its stake in Madison Square Garden, the New York sports arena.

Mr Rand Araskog, chairman and chief executive of ITT, said that, after the split, "ITT shareholders will own three dynamic companies on a tax-free basis and retain all the upside. Hilton cannot execute our plan, because it could not do a tax-free spin-off... for five years."

Hilton declined to comment on its next move. Mr Stephen Bollenbach, chief executive officer, said: "If ITT wanted to create shareholder value, they should be, and should have been, talking to Hilton."

The company has previously said that it is prepared to increase its bid, but not until it knows what it is buying.

Tax experts said new legislation could make a takeover of the future ITT Destinations impossible since it could trigger a large tax bill.

Mr Harold Vogel, an analyst at New York investment bank Cowen & Co, said he was "very happy" about the split and "not worried about ITT getting away from Hilton", as the split should improve shareholder value. The tender offer to buy back 30m shares at $70 per share will open today, and the split will occur in September.

As part of the plan, ITT has acquired the 20 per cent of ITT World Directories it did not already own.

Lex, Page 12

Rioja producer Barón de Ley up 25% on opening day

Wine shares in vintage start

By Tom Burns in Madrid

Rioja wine producer Barón de Ley uncorked bottles of its best vintage at Madrid's stock exchange yesterday as shares in the company put on 25.5 per cent on their first day of trading.

Barón de Ley's Pta1bn ($6.57m) initial public offering was 25 times subscribed.

A total of 74.6 per cent of the company's equity, which included an 8.3 per cent greenshoe – or over-allotment – option, was placed with domestic and foreign institutions.

Demand allowed Merrill Lynch, the US bank that co-ordinated the issue, to take the unusual step of raising the issue price from a maximum of Pta2,250 to Pta2,350.

Amid hectic first day trading, 3.1m of the 4.8m shares placed on the market changed hands, with the price finally settling at Pta2,950.

The shares were sold by Mercapital, the Madrid venture capital firm.

Foreign institutions were allocated 2.9m shares and domestic funds 1.9m shares.

The remaining equity will continue to be held by the company's senior management.

Barón de Ley, the first Rioja winery to be listed on Madrid's Bolsa, will be joined on the market today by Cune, a bigger producer, which is floating 25 per cent of its equity in an IPO valued at Pta2.83bn.

Santander Investment, the Spanish merchant bank that is co-ordinating Cune's placement, closed the book early on the offering after it received bids for five times the number of shares offered on the first day of registration.

Had the book remained open, the issue, chiefly aimed at domestic small savers, would have been more than 30 times subscribed.

In one of the toughest pro-rata allocations seen for an IPO on the Bolsa, small investors who registered to buy into Cune will be guaranteed just 20 shares, an investment worth about Pta80,000.

LTCB investors welcome SBC tie-up

By Gillian Tett in Tokyo

Shares of Japan's Long Term Credit Bank rose by the maximum permitted amount on the Tokyo Stock Exchange yesterday as traders welcomed its planned alliance with Swiss Bank Corporation.

LTCB shares rose to Y507, up Y80, after the TSE was deluged with buy orders.

The market hopes the alliance will help LTCB write off its bad debts and forge a clearer business strategy for Japan's proposed "Big Bang" financial deregulation reforms.

Other bank shares also rose sharply amid hopes that foreign groups would be interested in concluding more Japanese tie-ups.

Mr James Fiorillo, banking analyst with ING Barings, said: "The move may signal a quickening of the pace of strategic alliances between foreign financial institutions and Japanese firms."

The alliance between LTCB and SBC, announced on Tuesday by Mr Johannes De Gier, SBC Warburg executive chairman, and Mr Katsunobu Onogi, LTCB chairman, marks the first fully-fledged agreement to be concluded between a Japanese and non-Japanese company in the banking sector.

It will involve three joint ventures focused on investment banking, asset management and private banking, and is the first time a foreign group has fully merged its investment banking operations with a Japanese partner in Japan.

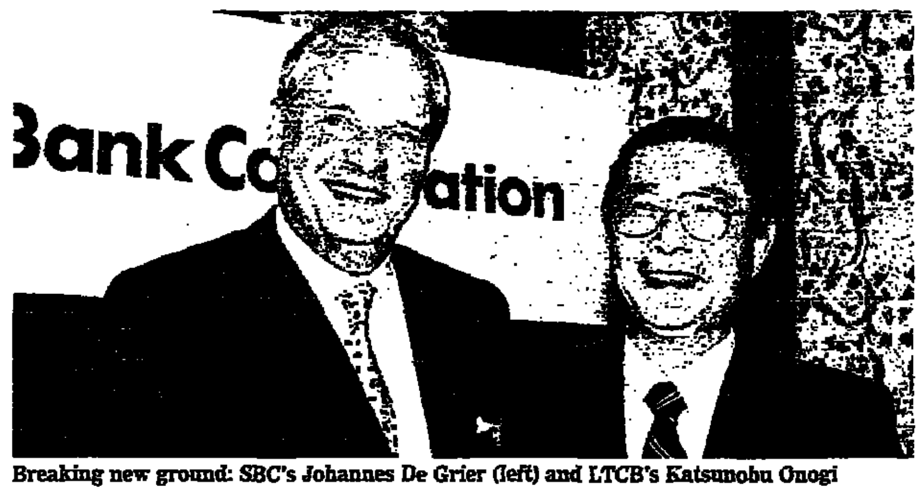
The two groups will purchase a 3 per cent equity stake in each other, and SBC will help LTCB in a planned Y200bn ($1.73bn) capital raising issue. Analysts yesterday pointed out that this new issue was likely to take LTCB's BIS ratio to about 10 per cent.

However, Standard and Poor's, the credit rating agency, yesterday said that it had no plans to change the status of LTCB's rating, which is marked for a possible downgrade. It is currently BBB+ for senior unsecured debt.

S&P said it wanted to see further signs of how the new business alliance would operate before changing the possible downgrade status, which reflects its concerns about LTCB's bad debts and longer-term business future.

Both S&P and Moody's said the alliance could be positive for SBC, which is seeking to expand in Asia.

Neither group plans to change SBC's ratings.



Breaking new ground: SBC's Johannes De Grier (left) and LTCB's Katsunobu Onogi

World Stocks, Page 32

An amicable end to a whirlwind romance

Sir Gordon Wu has turned his attention back to Hopewell, leaving Cepa to make its own way

They were brisk and businesslike – as befits a pair of dealmakers. Just nine months after Southern Company took control of Cepa, Sir Gordon Wu the founder of the pioneering Asian power group, ended his partnership with the acquisitive US utility and sold his remaining 20 per cent stake.

Mr Raymond Hill, who moved from Southern last month to take over at Cepa, says the parting was amicable. "We slapped each other on the backs," he says, adding that they will look at ways to co-operate after Tuesday's deal.

Although Sir Gordon will remain on the Cepa board, the attentions of the Hong Kong tycoon have clearly returned to Hopewell Holdings. The ending of financial ties means the two sides will go their separate ways, with little in common except the challenges bequeathed by this week's accord.

The immediate reason for this week's HK$5bn (US$645m) deal lies in Indonesia.

Under a clause in last October's agreement that gave Southern control of Cepa, some US$140m of the purchase price would depend on progress at the Tanjung Jati project. But with a July 15 deadline for another capital commitment looming, and a lack of progress, Mr Hill turned to Sir Gordon.

"We were putting in 80 cents on the dollar and we would have had to write a big cheque [for the final instalment of the Cepa acquisition]," Mr Hill says. "Gordon was putting in 20 cents on the dollar and would get a big reward . . .The economic incentives were very different."

Under the terms of the final agreement, the plant returns to Hopewell, with Sir Gordon in effect paying for the project in Cepa shares.

Even before the deadline at Tanjung Jati, the two sides had been drifting apart.

Mr Hill's arrival as managing director, and the departure of Mr Stewart Elliott, his predecessor and Sir Gordon's right-hand man, signalled a difference in management strategies.

Southern sought to move from a concentration of decision-making at the top of Cepa and to increase the emphasis on maximising returns from existing assets.

Three weeks into his new job, Mr Hill is unperturbed by the prospect of taking Cepa forward without Sir Gordon's Asian expertise and local connections.

"We have excellent contacts up to the highest level in Beijing . . . in the Philippines. I am not worried," he says. As an investment banker in the region between 1985 and 1992, Mr Hill was involved in infrastructure projects and the rescue of Orient Overseas, the shipping group controlled by the family of Hong Kong's post-colonial leader.

Southern also sees a shift to a more formalised system of contract awards in the region. "The nature of the business is maturing," says Mr Hill.

In the case of China, he cites the example of the Laibin B power plant, billed as a blueprint for build-operate-transfer power projects. "It has all the hallmarks of a big advance in professionalism," he says.

Expansion in China is one of Cepa's strategic priorities. Another is to broaden activities away from the construction of power plants. "We have got big projects in the Philippines, the next phase is to participate as they deregulate the industry," says Mr Hill.

Potential in Asian power, however, is often offset by problems. Cepa's most immediate task is to resolve uncertainty over its Pakistan power project amid reports that the government wants to cancel the contract.

Analysts claim the stakes are high, arguing that with a proposed plant in India, the Pakistan contract represents an important part of the group's project pipeline.

Sir Gordon, too, has headaches overseas. Although the sale of Cepa has bolstered his balance sheet, cutting the net debt to equity ratio from 90 per cent to just over 30 per cent, he is still seeking financial partners for Hopewell's troubled Bangkok elevated rail project.

"He has put in some US$500m, and probably needs to put in US$1.5bn more," says one Hong Kong banker. "I suspect that much of the cash from Southern will go back into Tanjung Jati."

The Hopewell chief dismisses sceptics. "We believe this is a very good deal for our shareholders. It enables Hopewell to complete the development of this power plant and retain a significant interest in the power sector."

Much will hinge on Sir Gordon's success in Indonesia. But investors are wary. In spite of what was seen as a good price for the 20 per cent stake, shares in Hopewell fell 4 per cent yesterday. "Cepa was an attractive asset, with a solid earnings stream," says one utilities analyst. "There is a question mark now over where stimulus will come from."

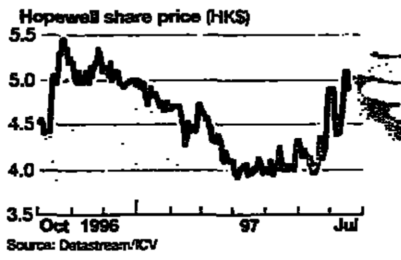
The answer may come from across the border. Tougher rules on Chinese asset injections into red chips – Hong Kong-listed subsidiaries of mainland business groups – has shifted attention towards the territory's companies. Hopewell, with its toll roads and power plants on the mainland, and its infrastructure ambitions, might prove a tempting partner.

John Ridding

In the pipeline

Cepa project list

	Location	Ownership interest %	Construction cost
Operating Projects			
Shajiao B	Guangdong, China	50.0	HK$4.1bn
Navolas 1	Manila, Philippines	50.1	US$41m
Navolas 2	Philippines	100.0	US$39m
Shajiao C	Guangdong, China	32.0	US$1.9bn
Pagbilao	Philippines	87.0	US$933m
Projects under construction			
Sual	Philippines	92.1	US$1.4bn
Projects under negotiation/development			
Tanjung Jati (gone back to Hopewell)	Central Java	80.0	US$1.8bn
Pakistan	Keti Bandar	75.0	US$1.8bn
India	n.a.	n.a.	n.a.




Gordon Wu, head of Hopewell and founder of Cepa

KDD to undercut NTT on long-distance calls

By Bethan Hutton in Tokyo

KDD, Japan's largest international telephone service operator, is to move into the domestic long-distance market, undercutting NTT, the market leader, by more than 50 per cent.

Existing long-distance rivals to NTT charge about 20 per cent less. KDD plans initially to offer the service to its corporate customers from the end of this month. However, as KDD has limited domestic infrastructure it is unlikely to take a big share of the market quickly.

"KDD will not be in a position to enter the domestic market in a big way until the Japan Information Highway submarine cable link is completed and brought into service, and the target date for that is spring 1999," said Mr Andrew Haskins, telecommunications analyst at HSBC James Capel in Tokyo.

KDD is investing Y130bn ($1.12bn) building the JIH, a fibre-optic cable encircling Japan. This will be linked to the regional networks of nine electric power companies which have formed an alliance with KDD. Until it is open, the company's long-distance services will mainly use leased lines.

KDD hopes for sales of about Y2bn in the first year.

The move into the domestic long-distance market is seen as part of a search for new markets and revenue sources when KDD's traditional territory is being squeezed on two fronts.

Deregulation is allowing new competitors into the international market, where KDD was previously almost guaranteed a dominant position, and new technology is creating ways to cut costs, for example with internet telephony.

International call-back services have also eaten into the Japanese market and KDD's profitability has already been affected.

This year it reported a 14 per cent drop in profits for the 1996-97 financial year.

"They are obviously in a fairly desperate position – the ground is being shot from under their feet on a daily basis," said one analyst.

The biggest blow to KDD's position is yet to come, when NTT is allowed to offer international telephone services.

ASIA-PACIFIC NEWS DIGEST

Format agreed for memory card

Six Japanese consumer electronics companies have agreed a format for an integrated circuit memory card for digital cameras and other products. The new card, called a "memory stick" because of its long, thin shape, will be adopted by Sony, Casio, Fujitsu, Olympus, Sanyo and Sharp. The companies hope the format will be taken up by other manufacturers. Currently, each manufacturer has a different format for the memory cards used in its digital cameras and other products.

The memory stick will be able to store between two and 32 megabytes of sound and still-picture images, and the information will be stored in eight-kilobyte blocks rather than the 512-byte blocks now used, in order to improve search speeds. The stick shape should also allow for more flexibility and compactness in product design. Products using the new format could be available next spring, initially mainly in Japan.

Digital cameras are becoming increasingly popular in Japan, but they have been slower to take off elsewhere. According to Sony, around 500,000 units were sold in Japan last year, and sales this year are expected to reach between 750,000 and 1m. *Bethan Hutton, Tokyo*

■ JAPANESE RAILWAYS

Managers named for JR East sale

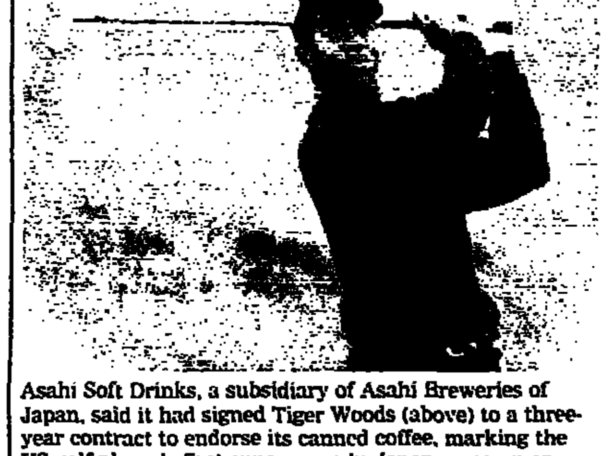
Nikko Securities and Morgan Stanley Japan have been chosen as lead managers for the sale of the second tranche of shares in East Japan Railway (JR East). JNR Settlement, the Japanese state-run body established to handle the debts and listings of railway companies from the now-defunct JNR group, did not specify a date for JR East's secondary listing, but said it would come only after the October 8 listing of Central Japan Railway, another rail operator. JNR Settlement said it would assess market conditions before the second release of JR East shares.

The initial listing in 1993 covered 2.5m state-owned shares of JR East. That was followed by the flotation of 1.7m shares in West Japan Railway (JR West) in October last year.

Central Japan Railway, also known as JR Tokai, will be the third JR company to list on Japan's stock exchanges, and securities analysts have cautioned that it could affect the supply-and-demand balance of shares in the other two former JNR rail operators. *Gwen Robinson, Tokyo*

■ PRODUCT ENDORSEMENT

Asahi signs up Tiger Woods



Asahi Soft Drinks, a subsidiary of Asahi Breweries of Japan, said it had signed Tiger Woods (above) to a three-year contract to endorse its canned coffee, marking the US golf player's first appearance in Japanese commercials.

The contract is for several hundred million yen, Asahi said. The commercials will only be broadcast in Japan. In 1996, some 355m cases of canned coffee were sold in Japan, accounting for 23 per cent of the domestic beverage market. *AP-DJ, Tokyo*

■ SINGAPORE

Unit trusts launched

OCBC and Keppel Bank of Singapore have each announced plans to launch unit trusts. OCBC Asset Management is launching and open-ended unit trust, Savers Value Fund, that will invest in equities and fixed-income securities, including money market instruments. The fund will allocate 70 per cent of its assets to fixed-income securities and the balance to equities. Keppel Bank will launch the first unit trust in Singapore that will invest in initial public offerings and newly listed stocks globally, with a particular focus on Asia-Pacific markets. *AP-DJ Singapore*

Much more than a debt of gratitude

After Kia, analysts fear that Korea's banks will be forced to mount more rescues

The financial rescue of Kia, South Korea's third largest carmaker, is likely to increase pressure on an already over-extended banking industry committed to saving conglomerates from possible collapse due to a weak economy.

Kia's creditor banks, led by Korea First Bank, decided on Tuesday to bail out Kia after they determined it was in danger of failing to meet debt payments, although Kia said it had not sought the surprise action.

Kia has had problems servicing its debts of Won9,500bn ($10.7bn) because of a slump in domestic car sales, while rumours about its financial health created difficulties in securing new loans.

It was the third rescue of a threatened Korean conglomerate, or *chaebol*, since April when the main banks decided to prevent more big corporate bankruptcies following the collapse of the Hanbo and Sammi steel groups this year. The others are the Jinro liquor and Dainong textile groups.

The banks said the bankruptcy prevention programme was necessary to curb the growth of bad loans to Korea's highly-indebted industrial groups and avoid further downgrades in international credit ratings.

Although the banks are betting that an expected economic recovery will soon reduce the need to save troubled *chaebol*, analysts are worried that the banks will be forced to mount more rescue efforts.

Banks are already owed Won7,200bn from the three *chaebol* they have rescued. The total includes Won5,380bn for Kia, Won1,200bn for Jinro and Won603bn for Dainong. Kia also owes Won4,050bn to non-bank financial institutions.

> Some observers are sceptical that Kia will be able to improve its finances quickly

"I don't exclude the possibility of more bankruptcies occurring among the *chaebol*, although Kia will probably be the biggest," says Mr Yoon Yong-chul, banking analyst for SBC ,Warburg Securities in Seoul.

Bank shares fell by 5.3 per cent on the Seoul bourse yesterday.

IBCA, the European credit rating agency, says it will review its Korean bank and sovereign ratings in response to the Kia bail-out.

"I expect other credit rating agencies, such as Standard & Poor's and Moody's, to follow suit," says Mr Henry Morris, managing director of Coryo International (H.K.), a Korean investment group.

Worries that Korean banks will suffer funding shortages due to problems in raising overseas capital has prompted the central bank to provide Won1,000bn in emergency loans to the banks through repurchase agreements.

The Kia bail-out poses new problems for Korea First Bank, the carmaker's largest lender after Korea Development Bank, the state-run industrial bank. Korea First also had the biggest exposure to the collapsed Hanbo steel group, which caused its international credit rating to be lowered.

The banks are hoping that Kia will be able to resume debt payments after a two-month grace period as it seeks to restructure its operations. Kia said yesterday it planned to sell Won1,900bn in property assets, cut its workforce and halve the number of its subsidiaries to 14.

The group may be forced to dispose of several troubled units, including its commercial vehicle, steel and engineering companies, which are mainly blamed for its financial problems. These three subsidiaries were largely responsible for Kia suffering a net loss of Won129bn in 1996, and they account for half of Kia's total debts.

In contrast, Kia Motors, its passenger car company, is considered relatively healthy, with profits of Won7bn last year and a debt level two times equity – strong by Korean standards.

The Kia group has also succeeded in reducing its debt burden from Won12,144bn at the end of 1996.

Kia's biggest creditors

as of May 31

	Won bn
Korea Development Bank	1,296
Korea First Bank	814
Cho Hung Bank	651
Shinhan Bank	505
Boram Bank	257
Seoul Bank	246
Commercial Bank of Korea	237
Hanil Bank	230

Source: Office of Bank Supervision

But some analysts are still sceptical that Kia will be able to improve its finances quickly.

The problem with selling off its steel and commercial vehicle businesses is that there is already excess supply in these industries, and earnings from property sales may be disappointing as other *chaebol* are also selling land in a depressed market to strengthen their finances.

Kia's "restructuring efforts will not help much. The most likely outcome is that it will be sold to someone else or be managed by its creditors," says Mr Yang Dong-ki, automotive analyst with Dongbang Peregrine Securities in Seoul.

However, "the banks are in a better position to sell Kia than the assets they have taken over from other troubled *chaebol*, such as the Hanbo steelworks. This will mean they can recover most of their Kia loans", he adds.

Samsung is considered the most likely to acquire Kia. It is seeking to increase plant capacity as it begins car production next year, according to Mr Yang. But Hyundai and Daewoo, Korea's two biggest carmakers, may also seek to take over Kia to prevent Samsung from gaining a large market share.

One potential problem in selling Kia to any of the big conglomerates is that it would be politically unpopular because the public opposes strengthening further the economic domination of the main *chaebol*.

This means that any possible sale of Kia may have to wait until after a presidential election in December. A sale would also have to be approved by Ford and its Japanese partner Mazda, which have the single largest shareholding in Kia, with a stake estimated at between 16.9 and 20 per cent.

John Burton

Solid US market helps Ford and GM

By Richard Waters in New York

Ford Motor, the second biggest carmaker in the US, shook off some of its hefty costs and the effects of expensive product launches to report record earnings of $2.52bn for the second quarter.

Along with General Motors, which also reported good earnings yesterday, the company predicted that the solid conditions in the US new vehicle market, which have underpinned its current strength, would continue well into next year.

Ford's rebound has come as its domestic rivals, GM and Chrysler, have been struggling to contain labour disputes in their North American plants.

It follows a renewed and more direct attack on costs after a period in the mid-1990s when Ford had struggled with an ambitious global reorganisation which was meant to make it more efficient.

GM put the after-tax cost of strikes at its North American operations at $490m in the second quarter, leaving its net income at $2.1bn for the period. Helped by one-off items, earnings rose 11 per cent from a year before to a new record level.

The results were also boosted by further success in its cost-cutting efforts, contributing to a $1⅛ rise in its shares, to $55⅞, during the morning in New York.

Ford's rebound reflects a stepping up of its cost cutting drive under Mr Jacques Nasser, who was promoted to run the group's worldwide automotive operations at the end of last year.

This has accelerated the cost savings in North America and helped stem losses in Europe. In all, cost savings so far this year have amounted to $1.8bn, said Mr John Devine, chief financial officer.

"It will be tough to sustain that sort of momentum. That said, we are going to keep the pressure on," said Mr Devine.

The company was helped in part by the strikes at Chrysler and GM, which enabled it to lift its market share in the US.

Strong demand for a number of its newer and more profitable vehicles, particularly the Expedition, helped boost profit margins.

GM, by contrast, has suffered from its heavier reliance on the car market, rather than the strong light-truck market.

During the second quarter, slack demand for cars pushed its average marketing incentives for each vehicle to $1,060. Mr Mike Losh, chief financial officer, said this would come down as sales shifted more towards light trucks later in the year.

GM's figures were boosted in part by after-tax gains of $421m from the sale of its interest in Avis Europe and other operations.

Further reductions in materials, manufacturing and engineering costs helped support its earnings. Had it not been for the strikes, net income from its core North American automotive operations would have risen 20 per cent, to $849m.

Succession question grips Versace empire

Industry watches as fashion group tries to overcome founder's death

When the ornate Gianni Versace boutique on London's Bond Street reopens today after remaining closed for two days following the designer's murder in Miami, the Versace fashion empire will officially be back in business.

While Mr Versace's family and friends mourn his death, and the public pores over lurid reports of the FBI's hunt for the serial killer suspected of shooting him, the fashion industry faces the practical question of whether the Versace group can survive without its founder.

The global luxury goods market is filled with prestigious and profitable brands, such as Chanel and Gucci, whose creators are long dead. Yet both businesses floundered immediately after the loss of their figurehead, and for every successful revival there have been dozens of failures.

The principal concern for the Versace group is the question of who will take over as chief designer. Gianni Versace ran the company with his younger sister, Donatella, as his assistant and latterly as designer of the sporty Versus collection, and his elder brother, Santo, as president in charge of business affairs.

Ms Versace, whose husband, Mr Paul Beck, manages the group's advertising, is widely regarded as her late brother's likeliest successor. After assisting him for years, she assumed a more visible role two years ago when he was treated for cancer, fuelling rumours that she was being groomed as the heiress apparent.

A bottle-blonde rarely seen without a cigarette and shades, the vivacious Ms Versace scores highly on charisma and social connections, both important attributes for modern fashion designers. As many celebrities perched along the front row of her Versus fashion shows as they did her brother's, and she modelled in the advertising for Versace's Blonde perfume.

However, Versus only provided 10 per cent of the group's L1,705bn ($974.8m) turnover last year, and Ms Versace has yet to prove she is capable of overseeing the design of all seven Versace fashion brands, as well as its perfumes, homewares, leather goods, sunglasses and the dozens of other products bearing the company's golden Medusa logo.

Moreover, fashion brands bereft of their founders have a very mixed record. Once-famous names, such as Vionnet, Poiret, Lanvin and Balmain, have either closed or lost their lustre.

Karl Lagerfeld's success at Chanel in the 1980s and, more recently, Tom Ford's at Gucci, have proved that new designers can restore commercial and critical success to dilapidated names.

But Chanel struggled for a decade after Coco Chanel's death in 1971, and the Gucci brand suffered from years of feuding among Guccio Gucci's squabbling heirs.

Even Christian Dior, which enjoyed instant success after its founder's sudden death in 1957 – when the 21 year-old Yves Saint Laurent unveiled his debut collection – lost momentum under subsequent designers. Its present owner, LVMH, the French luxury goods group, is now waiting anxiously to see whether the latest designer, the iconoclastic John Galliano, can revive Dior, and if Marc Jacobs, a young New Yorker, will do the same for its Louis Vuitton luggage business.

There are some hopeful signs for Versace's future prospects. It has a strong signature style, which is essential for a fashion brand's longevity, as well as its distinctive Medusa logo.

One complication could be the relationship between Mr Santo Versace and his sister, who own 35 per cent and 20 per cent, respectively, of the main family holding company. It will not be clear how Gianni Versace's 45 per cent stake will be divided until his will is read. And it will take considerably longer to see if the surviving Versaces can avoid a repetition of the Gucci feud.

The family also has to decide whether to go ahead with long-standing plans for a flotation on the New York and Milan *stock markets*. The Versace group has flourished in the 1990s, with net revenue rising from L321bn in 1990 to about L845bn last year and pre-tax profits from L26bn to an estimated L175bn over the same period.

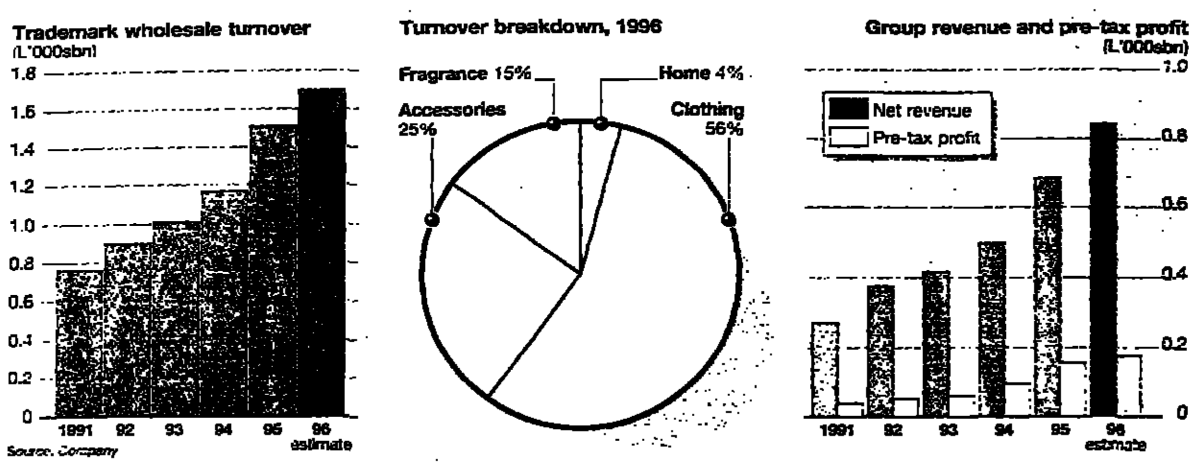
Until Gianni Versace's murder, the flotation was set for next spring. Prospective advisers were queueing up to represent the company, despite speculation that it had mafia connections. The family denied such rumours, and secured an out-of-court settlement from the Independent on Sunday newspaper in 1995 over accusations of mafia money laundering.

The Versace group said yesterday that it intended to make a formal announcement on its flotation plans. Investment bankers consider it highly unlikely that it will now float as early as next spring.

"If they manage the brand well, they should eventually be able to go to the market," said a US banker in Milan. "They'll probably have to wait for a another cycle of collections to be completed, to prove that they haven't lose their touch."

Alice Rawsthorn and Paul Betts

Versace: growth of a fashion house



Source: Company

Canadian forestry shake-up continues

By Scott Morrison in Vancouver

TimberWest and Doman, two Canadian lumber companies based in British Columbia, have agreed to split Pacific Forest Products in a C$573m (US$418.3m) deal, the latest move in a *wave of consolidations* sweeping the North American forestry industry.

TimberWest will acquire all of Pacific's shares and keep the company's 125,000 ha of private timberland in the western province.

Doman will buy Pacific's Crown tenured woodland, three sawmills and related operations for C$144m, with proceeds going to TimberWest.

The acquisition is the latest of several in the forestry industry, though most have been in the pulp and paper sector.

Mr Jim Logan, Pacific's chief financial officer, said the decision to sell was made by majority shareholder Avenor, which announced in April its intention to divest its non-core assets to pay for its since-aborted acquisition of Repap, ailing pulp and paper producer.

Under the agreement, the new owners will continue to provide fibre to a BC pulp mill owned by Avenor.

Pacific produces wood for international markets. Its holdings include private woodland and Crown timber tenures which allow it aggregate annual harvests of 2.8m cu m.

The land and operations acquired from Pacific are adjacent to holdings owned by TimberWest and Doman. As part of the acquisition, TimberWest has agreed to provide Doman with about 340,000 cu m of saw logs annually.

TimberWest, owned by TimberWest Timber Trust, has 210,000 ha of private timberland and other Crown tenures which enable it to harvest about 1.3m cu m annually. Doman, a coastal integrated forest products company, owns six sawmills and two pulp mills and has an allowable annual harvest of 2.5m cu m.

Valeo chief threatens to move production abroad

By Samer Iskandar in Paris

Valeo yesterday threatened to move more production overseas if the new government implemented electoral pledges that the French car components group claimed would undermine productivity.

Mr Noël Goutard, chairman and chief executive, said: "France is already one of the least efficient countries in the world. *If it* becomes even more so, Valeo would not escape unharmed. It is not part of our job to work in a hostile environment."

Mr Lionel Jospin, prime minister, has pledged to reduce the working week from 39 hours to 35 hours, with no loss of pay.

Mr Goutard described this as a "political mirage", and said it would "not create jobs, but destroy jobs".

"There are plenty of countries that would welcome new jobs," he said at the presentation of the company's half-year results. "If the cost of labour rises more, the only way for companies to cope would be to move to Great Britain."

Mr Goutard also said Valeo, which has nine production plants in Asia, planned to "double this figure in the near future".

Valeo reported sales of FFr17.26bn ($2.83bn) in the first half, up 14.6 per cent from the same period last year. Net income rose 15.7 per cent to FFr774m, or FFr740m after adjusting for *minority interests*.

This growth was partly accounted for by the absorption of acquisitions and partly by favourable currency fluctuations.

Sales outside Europe, which rose 35 per cent to represent a quarter of total sales, were the largest contributor to growth. Mr Goutard said he aimed to boost non-European sales to 50 per cent of Valeo's turnover in the next five years.

Sales in Europe grew 11 per cent, and French sales increased by 7 per cent, their share shrinking by 3 percentage points to 30 per cent of total sales.

Mr Goutard insisted the French growth was achieved "despite a morose environment in the automobile sector".

"The tax burden reduces purchasing power, so it is normal for the customer to shop around for the lowest prices," he said.

Sales to new car manufacturers were up 18 per cent, and aftermarket sales grew only 4 per cent. Mr Goutard said the aftermarket was *shrinking as a result of* the improved durability of products, combined with a reduction in road accidents.

Valeo is expecting the European market to grow in the second half, and the US market, "although remaining at a high level, should slow down".

Based on these assumptions, the company aims to achieve total sales in excess of FFr32bn in 1997, beating its own earlier forecasts of FFr30bn by 1998.

Mr Goutard also warned the passage to a single European currency in 1999 would increase competition. "Only the most competitive companies will survive," he said.

Salomon places $1bn YPF shares with institutions

By Ken Warn in Buenos Aires

Salomon Brothers in New York yesterday announced the placement with international institutions of nearly $1bn of shares in YPF, the privatised Argentine energy concern, in the largest Latin American placement to date by a sole manager.

Almost 33.8m shares, equivalent to 10 per cent of YPF's equity, were placed in the operation, at a price of $29.25 a share.

In early New York trading shares in YPF rose to almost $30.

The placement, conducted overnight, was in doubt until the last minute. An Argentine judge issued a court ruling on Monday night blocking the sale, in response to a petition from former employees who were claiming part of the proceeds.

The shares on offer were granted to members of YPF's workforce at the time of its privatisation in 1993. The judge ruled that the position of the former employees, who were fired or left the company before the privatisation, should be taken into account.

However, Mr Alberto Verme, head of Latin American investment banking at Salomon, said yesterday the judge had finally been persuaded of the importance of the sale for Argentina.

"Having an injunction hanging over the sale would have been very damaging and could have led to instability in the markets," he said.

YPF's workforce overwhelmingly agreed to the sale of the shares, for which they were paying the government in instalments. Proceeds from the sale will be divided between employees and the government, with nothing going to YPF itself.

About 70 per cent of the shares went to US institutions, 15 per cent to Europe, and 15 per cent to local institutions in Buenos Aires.

"The structure of the sale could be followed elsewhere in Latin America," said Mr Verme. "This was a case of accelerated book-building and no roadshow was required. It shows that for top-quality, well-managed Latin American companies, the market is ready to buy, if the price is right."

YPF, Argentina's biggest company, reported first quarter net profits of $224m, 3 per cent up on the previous quarter and 54 per cent ahead year-on-year. Net profits last year stood at $817m.

"We are pleased that through this sale our employees can cancel their debt with the state and also gain financially through being shareholders in YPF," said Mr Roberto Monti, executive vice-president.

INTERNATIONAL NEWS DIGEST

Ispat aims to double output

Mr Lakshmi Mittal, chairman of Ispat, the international steel group, said yesterday he aimed nearly to double production. Unveiling plans to float about 16 per cent of the company on the New York and Amsterdam stock markets, the London-based entrepreneur said he would use some of the estimated $460m from the share offering, which values the group at about $2.8bn, to step up output over the next two years. His plan is to offer 19.25m shares on the two markets in the first week of August, at between $22 and $26 each.

Mr Mittal said the proceeds would be used to pay off a $90m loan and to finance expansion. The company has already sealed an agreement in principle to acquire the long products division of Thyssen, the German steelmaker, and it is one of the 11 pre-qualified bidders for Sidor, a government-owned Venezuelan steel plant.

Barbara Smit, Amsterdam

■ INQUIRY DEMAND

Questions as Eurotunnel slides

The head of an association of investors in Eurotunnel, the troubled operator of the Channel tunnel rail link, yesterday demanded a stock market inquiry into why the company's share price continued to fall sharply. Mr Christian Cambier, head of the Association of Eurotunnel Shareholders, made public a letter to the head of the Commission des Opérations Bourse, the French markets watchdog, expressing concern at the "massive" fall in the share price since the company's extraordinary general meeting last Thursday.

Eurotunnel's shares fell a further 3.35 per cent to close at FFr6.60 las night, on the day that the CAC-40 index of leading French quoted companies rose 0.7 per cent, to close at a historic high of 2,988. The shares opened up briefly on Friday, after the EGM, at FFr8.70, but have been falling sharply since. *Andrew Jack, Paris*

■ PHARMACIA &UPJOHN

R&D shake-up planned

Pharmacia & Upjohn, the troubled US-Swedish drugs company, is to centralise its research and development and link it more closely with its marketing operations. The move comes two weeks after the announcement of a company-wide restructuring under the new chief executive, Mr Fred Hassan.

Both announcements involve the downgrading of the three headquarters sites, in Kalamazoo, Michigan, Stockholm, Sweden and Milan, Italy. The new R&D structure centralises all decision-making in Windsor, England, P&U's corporate headquarters. *Daniel Green*

■ PAPER

Haindl earnings drop 80%

Haindl, Germany's biggest paper supplier and Europe's third-largest, yesterday reported a sharp downturn in sales and profits amid deteriorating conditions last year in the European paper industry. Profits fell about 80 per cent to DM16.2m ($9m) on sales 11.5 per cent lower at DM1.76bn.

Group profits including the company's German and foreign subsidiaries fell about 14 per cent to DM94.9m, as sales dropped 7.8 per cent to DM2.84bn. Haindl said weak economic growth, which led to cuts in advertising and marketing budgets, had pushed prices lower. But it said demand began to recover at the end of 1996 and has continued this year. *Graham Bowley, Frankfurt*

■ COMPUTER NETWORKING

Ascend falls into loss

Ascend Communications of the US, one of the leading suppliers of computer networking equipment, reported a second-quarter loss of $48.8m , or 26 cents a share, after merger charges. Ascend last month acquired Cascade Communications for stock valued at about $3.7bn. Costs of integrating Cascade and another, smaller acquisition reduced net income in the latest quarter by $111.3m, or 57 cents a share. Without these costs, Ascend would have reported earnings of $62.4m , or 31 cents a share, four cents below analysts' forecasts. Combined earnings for the two companies in the same period last year were $44.4m, or 23 cents a share. Revenues for the latest quarter were $311.7m, up 52 per cent from a combined total of $205.6m last time. *Louise Kehoe, San Francisco*

■ STEEL ACQUISITION

Klöckner expands in Spain

Klöckner & Co, the German trading and services company, has acquired Spain's largest steel distributor, in its latest push into international markets. The purchase of Comercial de Laminados and Ferros de Litoral, CdL's Portuguese subsidiary, is Klöckner's first big investment in Spain and Portugal. Klöckner, which is a wholly-owned subsidiary of Germany's Viag, said the move would give it access to one of the fastest growing economies in Europe. Terms of the deal were not disclosed. *Graham Bowley*

■ LIFE ASSURANCE

Irish Life in Hungarian buy

Irish Life, Ireland's largest pensions and life assurance company, has made its first investment in Eastern Europe with the $90m acquisition of 56 per cent of Kereskedelmi Es Hitelbank, the state-owned Hungarian Credit and Commercial Bank. K&H is Hungary's second largest bank with 154 branches, and third-largest by assets at $2.2m. It accounts for an estimated 11 per cent of Hungarian deposits. *John Murray Brown, Dublin*

■ PRIVATISATION

Poland to float bank stake

The Polish government has cancelled a tender for Powszechny Bank Kredytowy under which banks were invited to bid for a 65 per cent stake in the country's sixth-largest commercial bank. It said yesterday it would, instead, float 51 per cent of PBK on the Warsaw Stock Exchange.
Christopher Bobinski, Warsaw

■ PETROL SELL-OFF

Kleinwort wins mandate

Dresdner Kleinwort Benson has been chosen as an adviser on the sale of Poland's Gdansk and Plock refineries and CPN, the petrol distributor. The three companies had combined net sales of $7.8bn last year, making the privatisation the largest to date of a Polish industrial sector. The brief does not envisage the flotation of stock in Warsaw. *Christopher Bobinski*

■ CORRECTION

North American Bus Industries

The Ft14.7bn valuation of Hungarian manufacturer North American Bus Industries was incorrectly converted in an article yesterday. The figure should have been $77.7m.

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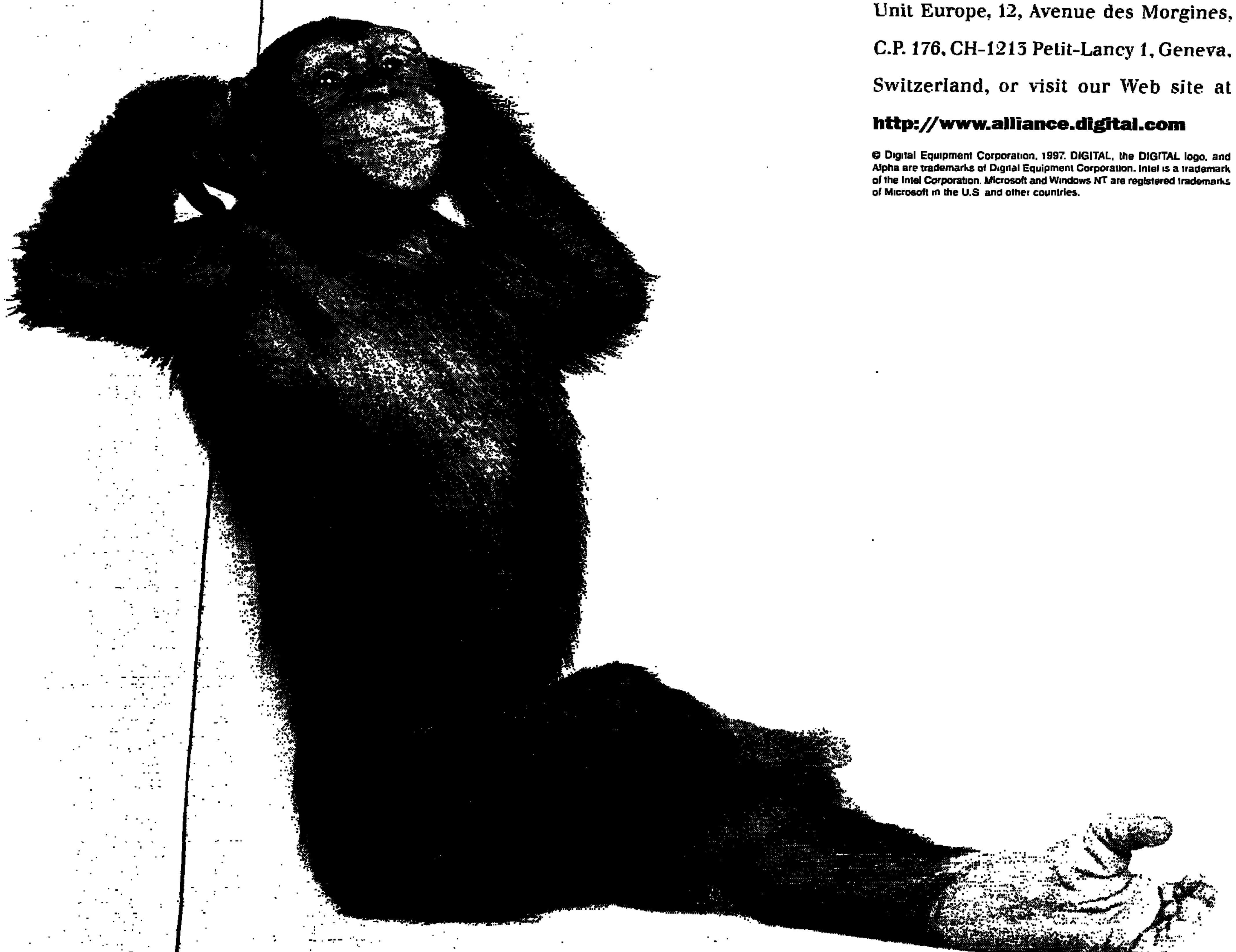


INTERNATIONAL CAPITAL MARKETS

US Treasuries lifted by low inflation data

GOVERNMENT BONDS

By John Labate in New York and Vincent Boland in London

US Treasury prices moved higher after consumer price index data were released. By early afternoon the benchmark 30-year Treasury bond was $\frac{29}{32}$ higher at $101\frac{21}{32}$, sending the yield down to 6.481 per cent.

Among shorter-term issues, two-year Treasury notes rose $\frac{1}{32}$ to $100\frac{5}{32}$, yielding 5.861 per cent, while 10-year bonds gained $\frac{3}{32}$ to $103\frac{1}{32}$, yielding 6.194 per cent.

Reaffirming the low inflationary outlook held by most analysts, yesterday's release of the CPI for June showed a modest 0.1 per cent rise. In addition, figures for June industrial production came in at a 0.3 per cent increase while capacity utilisation for May was adjusted downward from a previous estimate to 83.5 per cent.

"With capacity rising there has been a lack of bottlenecks, and that is a very good sign for maintaining low inflation," said Ms Cheryl Katz, senior economist at Merrill Lynch.

The low-inflation outlook gave a boost to Wall Street, with the Dow Jones Industrial Average breaking through the 8,000 level for the first time in heavy afternoon trading.

The Federal Reserve's next meeting on interest rate policy is scheduled for mid-August, but many economists are now expecting the Fed to keep interest rates unchanged.

European bond markets recovered some of their poise after several sessions dominated by the US dollar's assault on the DM1.80 level. Most markets closed steady on more good news on the US inflation front, but off the day's highs as investors digested German government comments on the exchange rate and decided they were nothing new.

The inflation figures "gave some relief to Europe, which had been under pressure in the past few days. But it doesn't alter the picture of European markets lagging the US," said Mr Huw Roberts, European bond strategist at NatWest Capital Markets in London.

The strong US tone lent support especially to GERMAN BUNDS, which posted the first positive closing performance in the past few days. While the dollar continued to threaten the DM1.80 level, most analysts said they still expected further D-Mark weakness.

The German government shed little light on its own views on foreign exchange market developments after a cabinet meeting at which the exchange rate was discussed.

That was the cue for the market to retreat from the day's highs. The September bund futures contract settled 0.08 higher at 102.43, but rose yet further in after-hours trading.

UK GILTS were boosted at the short end of the yield curve by a raft of generally positive data, including a surprise fall in earnings for June. Analysts said the fact that wages were falling could signal that the next UK interest rate rise would be in September rather than August. The September futures contract settled in London at $114\frac{14}{32}$, up $\frac{10}{32}$.

FRENCH BONDS also ended the day higher, with the September notional bond futures contract settling in Paris at 130.14, up 0.16. But trading was quiet as the market looked ahead apprehensively to Monday's audit of public finances, which is expected to show the extent of the budget deficit in preparation for European monetary union.

That was also the focus of ITALIAN BTPs, which recovered some of the momentum lost in the previous day's trading.

The September futures contract settled up 0.31 at 135.85.

French redemption of 'Balladur bonds' goes smoothly

The redemption of more than FFr90bn of "Balladur bonds" went smoothly yesterday, despite worries expressed earlier by the dealing community, writes Samer Iskandar in Paris.

The French treasury said the redemptions had been "taken into account in the state's financing programme" when this year's issuance of medium-term and long-term bonds was set at FFr600bn.

Balladur bonds – named after the then prime minister, Mr Edouard Balladur – worth FFr110bn were issued in 1993, but were not expected to be redeemed. Distributed largely among small investors, the bonds were exchangeable into shares of privatised companies. Almost 90 per cent of the securities, however, were never exchanged because most French privatisations performed poorly.

French specialists in government bonds had warned the bonds would prove difficult to refinance, because their holders – private investors – did not traditionally buy government bonds. Issuance of inflation-linked bonds was envisaged, but the idea was dropped.

Argentina delays global

INTERNATIONAL BONDS

By Edward Luce and Krishna Guha

Argentina yesterday delayed its planned $750m seven-year global bond issue, citing "volatile" market conditions. Jitters over the possible contagion effect of currency turmoil in south-east Asia had triggered some spread widening in emerging market paper on Tuesday.

However, the market had clawed back much of Tuesday's slippage last night, despite worries over the stability of the Brazilian real and the Polish zloty.

"Most of this is froth and bubble," said Mr Jerome Booth, head of research at ANZ. "There is no logical connection between south-east Asia's currency problems and economic conditions in Latin America, or Russia for that matter."

Syndicate officials, however, said Argentina had been wise to delay its global offering despite the fact that US Treasury bonds have rallied to record highs.

Average spreads on J.P. Morgan's Emerging Market Bond Index fell to 395 basis points yesterday after having widened to an average spread of 400 points on Tuesday. The index started 1997 at a spread of 530 basis points and touched a low of 370 points last week.

"Argentina was quite right to let the dust settle before coming out with this deal," said one official in New York. "But nobody believes we are on the cusp of any kind of crisis."

ALFA BANK evidently agreed with that prognosis, opting to launch its debut $175m eurobond yesterday. The three-year offering, priced to yield 425 basis points over US Treasuries, was the second international deal by a Russian bank after SBS-Agro broke the ice with a debut $250m bond last week.

An official at Goldman Sachs, sole book-runner, said it had increased the deal from the initially planned $100m after receiving a strong order book. The official added that the deal, proceeds of which will partly go towards Alfa's domestic branch expansion plan, was trading flat to the re-offer price last night.

BNG, the Dutch municipal finance house, tapped the sterling sector for the first time since 1995 with a £300m issue priced at 20 basis points over gilts. An official at J.P. Morgan, joint book-runner with HSBC, said the pricing was "comfortable" for investors.

KfW, the German house, priced its recent 10-year sterling deal at a spread of 15 basis points. About 40 per cent of the paper went to UK institutions. "BNG is trying to move away from its classic retail image and target institutions across Europe," said a banker. The syndicate said it had taken some paper back. The bond was trading flat to re-offer after launch.

BELGIUM issued its second eurodollar offering this year, a rare occurrence among European Union sovereigns. The $400m 21-month issue was priced to yield 3 basis points over equivalent US Treasuries.

Lead manager Deutsche Morgan Grenfell said the purpose was to refinance an expensive Ecu issue. "Belgium is moving towards debt reduction, so shortening duration seems logical," it added.

Other investment banks offered to price the issue flat to Treasuries, but DMG maintains that "with a large size and odd maturity" some spread was necessary. A similar AAA-rated World Bank issue trades at 4 basis points under Treasuries. Belgium is rated Aa1.

DMG said the eurodollar issue had diversified Belgium's investor base. While 80 per cent of the issue was bought by European investors, a number of east Asian central banks took part. There was also a "good split between institutions and retail investors".

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Kingdom of Belgium(a)	400	6.00	99.995R	May 1999	0.125R	+3(6%Jun99)	Deutsche Morgan Grenfell
BMW (UK)	250	6.25	99.875R	Aug 2000	0.225R	+18(6%May00)	Commerzbank/Goldman
Alfa-Russia Finance	175	10⅝#	99.625R	Jul 2000	1.25R	+425(6⅛%-00)	Goldman Sachs Intl
STERLING							
BNG	300	7.375	99.849R	Aug 2007	0.325R	+20(7¼Dec07)	HSBC Markets/JP Morgan
Abbey Natl Trsy Services(a)	250	6.00	97.398R	Aug 1999	0.125R	+30(8%Aug99)	Salomon Brothers Intl
BOS (SAM) No 1(b)	27.2	(b1)	102.78R	2072	3.78R	-	SBC Warburg
BOS (SAM) No 2(b)‡	105.6	(b2)	101.00R	2072	1.40R	-	SBC Warburg
Midland Bank(c)‡	50	(c1)	99.90	Jun 2007	0.35	-	HSBC Markets
FRENCH FRANCS							
Halifax	2bn	5.75	99.686R	Aug 2009	0.375R	+17§	CDC Marchés
SWISS FRANCS							
Cargill	150	2.75	102.15	Aug 2002	2.00	-	Merrill/SBC Warburg
PESETAS							
DSL Bank	10bn	5.60	100.144	Aug 2004	1.625	-	Argentaria/UBS
LUXEMBOURG FRANCS							
World Bank	2bn	5.50	102.15	Sep 2007	1.87s	-	BCEE/BGL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with £750m. Plus 350 days accrued. b) Shared Appreciation Mortgages. b1) 4.2% to 2027, then 5.2%. b2) 60% x 3-mth Libor -30bp to 2027, then +10bp. c) Fungible with £150m. Plus 36 days accrued. Callable from Jun 02 at par. c1) 3-mth Libor +20bp to Jun 02, then +70bp. § Over interpolated yield. s) Short 1st coupon.

BoS deal linked to UK house prices

By Krishna Guha

Bank of Scotland yesterday issued the first eurobonds linked to UK house prices. The bank issued £105.6m of floating-rate and £27.2m of fixed-rate bonds through two ring-fenced subsidiaries, Bank of Scotland SAM 1 and SAM 2.

Lead manager SBC Warburg said the issues marked the opening of a "new asset class". It said the bonds were well received by UK institutions, which can use them to hedge against earnings-linked liabilities.

The bonds are backed by "shared appreciation" mortgages, or SAMs, which offer house buyers a choice of low interest rates in return for different stakes in capital appreciation.

Investors receive below-market coupons plus a share in capital gains when houses are sold or the owner dies. The £105.6m floating-rate issue, backed by a popular zero-interest SAM, pays 60 per cent of three-month Libor minus 30 basis points to 2027, when the rate steps up to 60 per cent of Libor plus 10 points.

The coupon is secured by issuing more bonds than underlying mortgages, and reinvesting the surplus in interest bearing deposits.

The fixed-rate bond issue pays a 4.2 per cent coupon until 2027, stepped up to 5.2 per cent. The coupon is paid from the interest charged on low-interest SAMs, which sold badly.

Both issues – which will amortise with the underlying mortgages – have a maturity of 75 years. Bank of Scotland has an option to redeem remaining bonds once 80 per cent are amortised.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	10/07	124.4952	+0.590	6.66	6.73	7.33
Austria		5.625	07/07	99.8100	+0.170	5.65	5.70	5.80
Belgium		6.250	03/07	104.0600	+0.090	5.69	5.62	5.88
Canada *		7.250	06/07	109.5100	+0.570	5.96	5.97	6.43
Denmark		7.000	06/07	106.3000	+0.080	6.15	6.11	6.27
France	BTAN	4.750	03/02	100.5742	+0.040	4.61	4.43	4.67
	OAT	5.500	04/07	100.2400	+0.160	5.46	5.39	5.71
Germany Bund		6.000	07/07	102.8800	+0.140	5.61	5.55	5.79
Ireland		8.000	08/06	110.7000	+0.240	6.41	6.39	6.70
Italy		6.750	02/07	101.9300	-	6.48†	6.39	7.11
Japan	No 148	5.600	06/02	118.3902	+0.020	1.58	1.57	1.79
	No 182	3.000	09/05	104.9614	+0.250	2.28	2.30	2.50
Netherlands		5.750	02/07	101.4400	+0.060	5.55	5.47	5.67
Portugal		9.500	02/06	121.3600	+0.010	6.21	6.16	6.43
Spain		7.350	03/07	107.6800	+0.110	6.25	6.20	6.62
Sweden		8.000	08/07	110.5145	-0.160	6.54	6.42	6.96
UK Gilts		7.000	06/02	99-16	+4/32	7.12	7.19	6.95
		7.250	12/07	101-12	+9/32	7.06	7.08	7.05
		9.000	10/08	114-20	+10/32	7.09	7.11	7.12
US Treasury *		6.625	05/07	103-01	+15/32	6.21	6.25	6.54
		6.625	02/27	101-21	+29/32	6.50	6.57	6.81
ECU (French Govt)		5.500	04/07	97.0800	+0.270	5.90	5.68	6.03

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: Standard & Poor's MMS.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.88
Prime rate	8½	Two month	-	Three year	5.98
Broker loan rate	7¼	Three month	5.19	Five year	6.11
Fed.funds	5⅝	Six month	5.31	10-year	6.21
Fed.funds at intervention	-	One year	5.50	30-year	6.49

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	130.20	130.14	+0.16	130.32	130.04	82,305	209,584
Dec	98.86	98.84	+0.18	98.86	98.86	2	4,367
Mar	98.25	98.24	+0.18	98.26	98.26	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Aug	Calls Sep	Calls Dec	Puts Aug	Puts Sep	Puts Dec
126	-	-	-	0.01	0.09	-
127	3.14	-	-	0.03	0.18	-
128	2.16	-	-	0.11	0.37	-
129	1.24	1.51	-	0.35	0.71	-
130	0.49	0.85	-	0.97	1.24	-

Est. vol. total, Calls 3,881 Puts 12,524. Previous day's open int., Calls 105,323 Puts 138,157.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	102.48	102.43	+0.11	102.68	102.33	165830	274705
Dec	101.48	101.53	+0.12	101.59	101.48	1466	9701

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
10200	0.56	0.88	0.67	1.02	0.13	0.45	1.14	1.49
10250	0.25	0.59	0.47	0.81	0.32	0.66	1.44	1.78
10300	0.08	0.36	0.31	0.63	0.65	0.93	1.78	2.10

Est. vol. total, Calls 12603 Puts 11069. Previous day's open int., Calls 186146 Puts 256339

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	135.67	135.61	+0.07	135.92	135.38	46286	103184
Dec	107.67	107.73	+0.06	107.80	107.67	222	2230

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
8000		27.73		0
8050		27.23		0
8100		26.73		0

Est. vol. total, Calls 1992 Puts 4425. Previous day's open int., Calls 86208 Puts 108757

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	117.31	117.34	+0.08	117.54	117.21	61,016	85,200
Dec	-	101.12	-	-	-	-	273

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	114-06	114-14	+0-10	114-20	113-31	67923	174677
Dec		114-02	+0-10			0	1113

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
114	0-43	1-10	1-20	1-53	0-15	0-46	1-16	1-49
115	0-13	0-41	0-56	1-24	0-49	1-13	1-52	2-20
116	0-03	0-22	0-35	1-00	1-39	1-58	2-31	2-60

Est. vol. total, Calls 4667 Puts 600. Previous day's open int., Calls 40486 Puts 31104

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	96.80	96.92	+0.32	96.98	96.70	1,440	6,047

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	113-30	114-01	+0-03	114-14	113-30	357,208	471,462
Dec	113-18	113-19	+0-01	114-01	113-18	2,179	32,440
Mar	-	113-03	-	-	-	85	13,810

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	124.93			125.05	124.88	2137	n/a
Dec	124.38			124.38	124.30	235	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Wed Jul 16	Day's change %	Tue Jul 15	Accrued interest	xd adj. ytd		Low coupon yield Jul 16	Jul 15	Yr. ago	Medium coupon yield Jul 16	Jul 15	Yr. ago	High coupon yield Jul 16	Jul 15	Yr. ago
1 Up to 5 years (20)	119.52	0.08	119.42	2.23	6.01	5 yrs	7.10	7.14	7.31	7.16	7.19	7.36	7.22	7.26	7.43
2 5-15 years (20)	151.92	0.23	151.57	1.94	6.96	15 yrs	7.05	7.09	8.13	7.08	7.12	8.13	7.16	7.20	8.23
3 Over 15 years (6)	182.57	0.43	181.79	6.44	5.02	20 yrs	7.05	7.09	8.24	7.05	7.09	8.22	7.15	7.19	8.30
4 Irredeemables (5)	211.77	0.60	210.51	2.81	7.34	Irred.†	7.14	7.18	8.33						
5 All stocks (51)	146.95	0.22	146.62	2.88	6.38										

Index-linked							Inflation 5% Jul 16	Jul 15	Yr. ago	Inflation 10% Jul 16	Jul 15	Yr. ago
6 Up to 5 years (2)	205.28	0.10	205.08	1.77	3.03	Up to 5 yrs	3.57	3.69	2.68	2.96	2.98	1.16
7 Over 5 years (10)	199.22	0.30	198.62	1.39	3.56	Over 5 yrs	3.58	3.61	3.82	3.36	3.38	3.61
8 All stocks (12)	198.79	0.28	198.23	1.42	3.49							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Jul 16	Jul 15	Jul 14	Jul 11	Jul 10	Yr ago	High*	Low*
Govt. Secs. (UK)	96.88	96.61	95.66	97.15	96.77	92.81	97.51	93.31
Fixed Interest	124.68	124.78	125.07	125.00	125.17	112.48	125.33	115.32

Gilt Edged Activity Indices

	Jul 15	Jul 14	Jul 11	Jul 10	Jul 9
Gilt Edged bargains	NA	NA	NA	NA	NA
5-day average	NA	NA	NA	NA	NA

 * for 1997. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974. Gilt Edged volume data will be unavailable until further notice.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:05 pm on July 16

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	100⅜	100½	+¼	6.42
ABN Amro Bank 7¼ 05	1000	103	103¼	+¼	6.86
African Dev Bk 7¾ 23	500	103¼	103¾	+⅝	7.09
Alberta Province 7⅝ 98	1000	101⅞	102		6.05
Argentina 11½ 17	2000	[illegible]	[illegible]	[illegible]	[illegible]
Spain 7¼ 03	4000	111	111⅛	-⅛	4.98
Volkswagen Intl Fin 7 03	1000	108⅝	108⅞		5.25
World Bank 5⅞ 03	3000	104¾	104⅞	+⅛	4.97
World Bank 6⅛ 02	3000	108⅝	108½	+⅛	4.71
World Bank 7⅛ 05	3000	110¾	110⅞	+⅛	5.37
Abbey Natl Treasury 8 03 £	1000	101¼	101⅞	+¼	7.60
British Land 8⅞ 23 £	150	107⅛	107½	+⅛	8.38
Denmark 6¾ 98 £	800	99⅝	99½	+⅛	7.34
Depfa Finance 7⅞ 03 £	500	97⅞	97¾	+⅛	7.60
EIB 8 03 £	1000	102⅞	103	+⅛	7.38
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Shorts* (Lives up to Five Years)							
Treas Cnv 7pc 1997‡‡		7.00	6.74	100 1/16	—	101 3/16	100 1/16
Treas 8¾pc 1997‡‡		8.73	6.50	100 1/16	—	107	100 1/16
Exch 15pc 1997		14.68	6.62	102 1/16	-1/16	111	102 1/16
Exch 9¾pc 1998		9.62	6.82	101	—	105	100
Funding 3½pc 1999-4		4.06	5.88	86¼	+	87	80
Conv 9½pc 2004		8.40	7.16	113	+	114	109
Treas 6¾pc 2004‡‡		6.89	7.10	97	+	98	93½
Conv 9½pc 2005		8.35	7.15	113	+	122	110
Exch 10½pc 2005		8.72	7.14	120	+	121	117
[illegible]		9.88	7.21	126	+	129	124

Index-Linked	Notes	Yield (1)	Yield (2)	Price £	+ or –	52 week High	52 week Low
4⅝pc '98‡‡	(135.6)	-	2.98	114¼	+	114⅞	113¼
2½pc '99		2.08	3.21	181¾	+	182	179
2½pc '01	(78.3)	2.95	3.55	186½	+	187	180¾
2½pc '03	(78.8)	3.14	3.65	182	+	184	175¾
4⅜pc '04‡‡	(135.6)	3.19	3.64	118	+	120	114
[illegible]							

Other Fixed Interest

[illegible]

* 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

CURRENCIES AND MONEY

Relaxed German stance helps dollar

MARKETS REPORT

By Simon Kuper and Greta Steyn

The dollar and pound held firm near six-year highs yesterday as an expected German call for a stronger D-Mark never came.

Traders had thought the German government would say that the D-Mark's slide since spring 1995 had gone too far. But the actual statement was mild.

A government spokesman said: "There is no reason to dramatise recent developments on foreign exchange markets." The rise in the dollar and pound "should be seen against the backdrop of economic developments in the US and Britain." Speculation ahead of European monetary union "could also have led to an overreaction of markets". The weak D-Mark had boosted German exports, he acknowledged.

His comments reduced market fears that Germany and other Group of Seven states would intervene to help the D-Mark, although he said they were watching forex moves closely. Mr Jeremy Hawkins, chief economist at the Bank of America in London, said: "It's a lukewarm attempt to cap the dollar and I don't think it's impressed anyone."

The market had expected stronger words after recent aggressive pro-D-Mark statements from Mr Theo Waigel, German finance minister, and Mr Hans Tietmeyer, Bundesbank president. The D-Mark has fallen 5.5 pfennigs against the dollar in 8 days, and 15 pfennigs against sterling since June 20, due to Germany's weak economy and fears that the putative euro would be soft.

Some fears of intervention persisted, and the dollar and pound closed marginally lower against the D-Mark at DM1.797 and DM3.012 respectively. The dollar was struggling against resistance at DM1.80. But technical factors raised the US currency Y0.6 against the yen to Y116.1. It has gained Y3.7 in eight days.

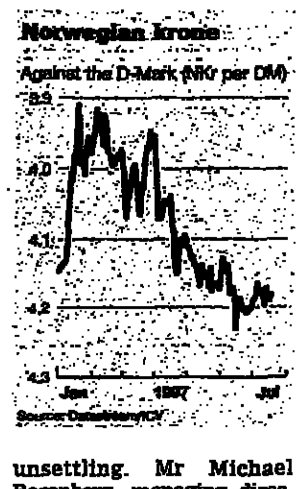
■ The Norwegian krone rose from NKr4.191 against the D-Mark to NKr4.155 after Norges Bank raised interest rates. The deposit and overnight lending rates rose 25 basis points each to 3.5 per cent and 5.5 per cent respectively. The increase was meant to help the krone, down more than 8 per cent against a currency basket since January on worries over inflation, September elections, and cheaper oil.

■ The German talk yesterday was so mild as to be unsettling. Mr Michael Rosenberg, managing director of international fixed income research at Merrill Lynch in New York, said it was just possible that Germany was setting a bear trap – tempting investors to buy dollars and then intervening when no one was left to buy the US currency. But he thought this unlikely.

He said the dollar would hit DM2 to the D-Mark by 2000. Asked what the downside risk was, he replied: "DM1.9898." The market was "going through a rerating of the D-Mark", prompted by high German unemployment and the prospect of a weak euro. German industry needed a lower equilibrium exchange rate. He forecast that the Bundesbank would intervene at some point, but added: "Do I think it will succeed? No." He pointed out that the D-Mark was sliding even though the yield gap between US and German bonds was shrinking. The 10-year spread fell to around 72 basis points yesterday, partly because of tame US consumer price inflation data for June out yesterday. Even with prospects of a US rate rise fading, the D-Mark appears unable to recover.

■ Some calm returned to emerging markets yesterday after the recent attacks on currencies. The Polish zloty, down 4 per cent on Tuesday, firmed and was fixed at 3.41 per cent below its central parity rate. Forex strategists said the zloty's 7 per cent trading band should survive for now, although concerns about the current account deficit and loose fiscal policy ahead of the September elections could maintain threats.

The Philippine central bank relaxed its defence of the peso, down about 13 per cent since last week's devaluation. The bank cut its overnight rate 400 basis points from 32 per cent, and promised further rate cuts. The Malaysian ringgit and Thai baht found respite, but the Indonesian rupiah and Taiwan dollar tumbled.



■ Pound in New York

Jul 16	—Latest—	— Prev. close —
£ spot	1.6765	1.6795
1 mth	1.6739	1.6778
3 mth	1.6702	1.6742
1 yr	1.6535	1.6573

■ OTHER CURRENCIES

Jul 16	£	$
Czech Rp	57.3889 - 57.4700	34.2600 - 34.2900
Hungary	322.373 - 322.630	192.450 - 192.500
Iran	5028.00 - 5025.30	3000.00 - 3000.00
Kuwait	0.5081 - 0.5085	0.3033 - 0.3034
Poland	5.8126 - 5.8325	3.4700 - 3.4800
Russia	9700.50 - 9707.39	5781.00 - 5782.00
U.A.E.	6.1518 - 6.1563	3.6725 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

Jul 16		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	21.1894	-0.0208	791 - 997	21.2258	21.0430	21.135	3.1	21.0223	3.2	20.5168	3.2	101.9
Belgium	(BFr)	62.1973	-0.0606	395 - 550	62.2840	61.7760	62.0173	3.5	61.6473	3.5	59.8973	3.7	101.2
Denmark	(DKr)	11.4797	-0.0089	749 - 845	11.5018	11.3724	11.4482	3.3	11.3842	3.3	11.0927	3.4	103.3
Finland	(FM)	8.8907	-0.0126	839 - 975	8.9170	8.8160	8.8654	3.4	8.8129	3.5	8.6002	3.3	82.0
France	(FFr)	10.1719	-0.0082	670 - 767	10.1897	10.0858	10.1389	3.9	10.0819	3.5	9.8064	3.6	103.5
Germany	(DM)	3.0116	-0.0029	102 - 129	3.0182	2.9837	3.0023	3.7	2.9832	3.8	2.8963	3.8	102.0
Greece	(Dr)	472.497	-0.147	261 - 733	473.699	468.822	474.28	-4.5	476.904	-3.7	485.272	-2.7	65.0
Ireland	(I£)	1.1156	-0.0021	145 - 166	1.1181	1.1112	1.1151	0.5	1.1137	0.7	1.1028	1.1	99.4
Italy	(L)	2926.10	-2.1	422 - 797	2933.35	2903.40	2926.18	0.0	2926.14	0.0	2923.56	0.1	76.1
Luxembourg	(LFr)	62.1973	-0.0606	395 - 550	62.2840	61.7760	62.0173	3.5	61.6473	3.5	59.8973	3.7	101.2
Netherlands	(Fl)	3.3911	-0.0024	896 - 926	3.3971	3.3604	3.3809	3.6	3.3599	3.7	3.264	3.7	100.5
Norway	(NKr)	12.5126	-0.1208	050 - 201	12.6248	12.4685	12.4801	3.1	12.4191	3.0	12.1501	2.9	95.6
Portugal‡	(Es)	304.230	-0.127	064 - 395	304.745	301.372	304.074	0.6	303.544	0.9	299.456	1.6	92.2
Spain	(Pta)	253.528	-0.418	392 - 663	254.250	251.810	253.213	1.5	252.463	1.7	248.093	2.1	76.5
Sweden‡	(SKr)	13.1403	+0.0016	304 - 501	13.2076	13.0753	13.1128	2.5	13.0543	2.6	12.7976	2.6	84.8
Switzerland	(SFr)	2.4847	+0.0114	832 - 862	2.4887	2.4596	2.4738	5.3	2.4512	5.4	2.351	5.4	105.1
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	105.2
Ecu	-	1.5250	-0.0064	241 - 259	1.5279	1.5165	1.5217	2.6	1.5145	2.7	1.4805	2.9	-
SDR†	-	1.221980	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6754	+0.0011	749 - 758	1.6809	1.6712	-	-	-	-	-	-	-
Brazil	(R$)	1.8105	+0.0013	099 - 111	1.8167	1.8066	-	-	-	-	-	-	-
Canada	(C$)	2.3010	+0.0075	999 - 020	2.3066	2.2920	2.2942	3.6	2.2805	3.6	2.2296	3.1	85.3
Mexico	(New Peso)	13.2905	+0.0862	785 - 024	13.3585	13.2558	-	-	-	-	-	-	-
USA	($)	1.6756	+0.0011	751 - 760	1.6812	1.6715	1.674	1.1	1.6704	1.2	1.6536	1.3	104.0
Pacific/Middle East/Africa													
Australia	(A$)	2.2792	+0.0051	778 - 806	2.2914	2.2747	2.2786	0.3	2.2767	0.4	2.2666	0.6	91.4
Hong Kong	(HK$)	12.9839	+0.0095	795 - 882	13.0259	12.9518	12.9829	0.1	12.9764	0.2	12.9214	0.5	-
India	(Rs)	59.8256	+0.0375	676 - 835	60.0190	59.7060	60.0208	-3.9	60.4214	-4.0	62.1011	-3.8	-
Israel	(Shk)	5.9598	-0.0208	496 - 699	6.0288	5.9496	-	-	-	-	-	-	-
Japan	(Y)	194.473	+1.085	362 - 584	194.870	192.940	193.453	6.3	191.428	6.3	182.443	6.2	132.6
Malaysia	(M$)	4.3330	+0.0396	276 - 383	4.3406	4.2824	4.3373	-1.2	4.3453	-1.1	4.3639	-0.7	-
New Zealand‡	(NZ$)	2.5416	+0.0177	400 - 432	2.5529	2.5373	2.5414	0.1	2.5424	-0.1	2.5495	-0.3	109.6
Philippines‡	(Peso)	49.8310	-0.4748	144 - 476	51.4822	47.4098	49.9909	-3.8	50.2403	-3.3	51.2973	-2.9	-
Saudi Arabia‡	(SR)	6.2843	+0.0039	823 - 862	6.3052	6.2715	6.2808	0.7	6.2724	0.8	6.2359	0.8	-
Singapore‡	(S$)	2.4262	+0.0073	247 - 277	2.4343	2.4136	2.4216	2.3	2.4115	2.4	2.3633	2.6	-
South Africa‡	(R)	7.6322	+0.0032	276 - 367	7.6562	7.6179	7.6829	-8.6	7.8108	-9.4	8.2477	-8.1	-
South Korea	(Won)	1497.94	+4.28	419 - 170	1502.49	1492.08	-	-	-	-	-	-	-
Taiwan‡	(T$)	46.8233	+0.0461	688 - 777	46.9694	46.7134	46.8068	0.4	46.767	0.5	46.5693	0.5	-
Thailand‡	(Bt)	50.3419	+0.1738	865 - 973	50.3973	49.2990	50.6785	-8.0	51.1401	-6.3	52.1703	-3.6	-

† Rates for Jul 15. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. ‡ Corrections have been made to July 15th's published rates. For amended values please fax 0171-825 7644. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 16		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.6463	-0.0203	435 - 490	12.6630	12.5750	12.6426	2.3	12.5733	2.3	12.3493	2.3	101.4
Belgium	(BFr)	37.1205	-0.0595	960 - 450	37.1710	36.8900	37.105	2.4	36.894	2.4	36.2005	2.5	101.2
Denmark	(DKr)	6.8513	-0.0096	503 - 523	6.8639	6.8037	6.8492	2.0	6.8153	2.1	6.7089	2.1	102.6
Finland	(FM)	5.3062	-0.0108	035 - 088	5.3164	5.2742	5.3055	2.6	5.271	2.6	5.1772	2.4	81.3
France	(FFr)	6.0706	-0.0097	695 - 720	6.0811	6.0340	6.068	2.3	6.0354	2.3	5.9266	2.4	102.8
Germany	(DM)	1.7974	-0.0029	970 - 977	1.8010	1.7850	1.7965	2.6	1.7856	2.6	1.7509	2.6	101.4
Greece	(Dr)	281.995	-0.265	930 - 060	282.600	280.200	283.555	-5.5	285.345	-4.8	292.495	-3.7	64.7
Ireland	(I£)	1.5020	+0.0038	010 - 030	1.5065	1.4980	1.4974	0.6	1.5003	0.5	1.5007	0.1	-
Italy	(L)	1746.35	-2.35	570 - 700	1749.80	1737.00	1750.47	-1.2	1751.12	-1.1	1754.55	-0.5	75.8
Luxembourg	(LFr)	37.1205	-0.0595	960 - 450	37.1710	36.8900	37.105	2.4	36.894	2.4	36.2005	2.5	101.2
Netherlands	(Fl)	2.0238	-0.0027	235 - 242	2.0270	2.0101	2.0224	2.5	2.0111	2.5	1.9734	2.5	100.5
Norway	(NKr)	7.4677	-0.0769	652 - 702	7.5250	7.4365	7.5301	2.3	7.4248	2.3	7.3131	2.1	94.3
Portugal‡	(Es)	181.570	+0.19	520 - 620	181.830	180.300	180.624	0.2	181.48	0.2	180.31	0.7	92.7
Spain	(Pta)	151.310	-0.345	270 - 350	151.530	150.650	151.61	0.4	151.09	0.6	149.915	0.9	76.1
Sweden‡	(SKr)	7.8424	+0.0040	385 - 461	7.8626	7.8155	7.7906	1.4	7.814	1.4	7.74	1.3	84.4
Switzerland	(SFr)	1.4829	+0.0059	824 - 834	1.4850	1.4704	1.4717	4.3	1.4669	4.3	1.4214	4.1	105.3
UK	(£)	1.6756	+0.0011	751 - 760	1.6812	1.6715	1.6729	1.1	1.6704	1.2	1.6536	1.3	105.1
Ecu	-	1.0988	-0.0037	984 - 991	1.1045	1.0967	1.1002	-1.6	1.1035	-1.7	1.119	-1.8	-
SDR†	-	0.72505	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	999 - 999	0.9999	0.9999	-	-	-	-	-	-	-
Brazil	(R$)	1.0806	+0.0001	805 - 806	1.0810	1.0805	-	-	-	-	-	-	-
Canada	(C$)	1.3733	+0.0038	730 - 735	1.3735	1.3704	1.3701	2.8	1.3644	2.6	1.3438	2.1	85.2
Mexico	(New Peso)	7.9320	+0.0465	270 - 370	7.9370	7.9230	8.0405	-16.4	8.2515	-16.1	9.162	-15.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	104.8
Pacific/Middle East/Africa													
Australia	(A$)	1.3603	+0.0023	598 - 607	1.3609	1.3598	1.3601	0.2	1.3596	0.2	1.3552	0.4	93.1
Hong Kong	(HK$)	7.7490	+0.0008	485 - 495	7.7490	7.7480	7.7495	-0.1	7.7504	-0.1	7.7527	0.0	-
India	(Rs)	35.7050	-	800 - 300	35.7300	35.6800	35.8425	-4.6	36.1275	-4.7	37.34	-4.6	-
Israel	(Shk)	3.5569	-0.0147	518 - 620	3.5897	3.5518	-	-	-	-	-	-	-
Japan	(Y)	116.065	+0.575	030 - 100	116.190	115.280	115.55	5.3	114.55	5.2	110.25	5.0	134.4
Malaysia	(M$)	2.5860	+0.022	835 - 885	2.5900	2.5590	2.5905	-2.1	2.5995	-2.1	2.6295	-1.7	-
New Zealand‡	(NZ$)	1.5169	+0.0097	163 - 175	1.5180	1.5163	1.5177	-0.6	1.5201	-0.8	1.5302	-0.9	-
Philippines‡	(Peso)	29.7400	+0.2650	800 - 000	30.8000	28.2000	-	-	-	-	-	-	-
Saudi Arabia‡	(SR)	3.7506	-	504 - 507	3.7507	3.7504	3.7513	-0.2	3.7523	-0.2	3.7569	-0.2	-
Singapore‡	(S$)	1.4480	+0.0025	475 - 485	1.4495	1.4433	1.4463	1.5	1.4425	1.5	1.423	1.7	-
South Africa‡	(R)	4.5550	-0.0010	535 - 565	4.5565	4.5535	4.5955	-10.7	4.675	-10.5	4.9775	-9.3	-
South Korea	(Won)	894.000	+2	000 - 000	896.000	892.000	-	-	-	-	-	-	-
Taiwan‡	(T$)	27.9450	+0.01	200 - 700	27.9700	27.9200	27.956	-0.5	27.965	-0.3	28.0575	-0.4	-
Thailand‡	(Bt)	30.0450	+0.085	200 - 700	30.1000	29.4500	30.49	-17.8	31.195	-15.3	32.425	-7.9	-

† SDR rate per $ for Jul 15. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jul 14: Base average 1990=100. ‡ Corrections have been made to July 15th's published rates. For amended values please fax 0171 825 7644. The exchange rates printed in this table are also available on the internet at http://www.FT.com

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jul 16		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.46	16.35	4.842	1.794	4705	5.452	20.12	489.1	407.8	21.13	3.995	1.608	3.700	2.694	312.7	2.452
Denmark	(DKr)	54.18	10	8.861	2.623	0.972	2549	2.954	10.90	265.0	220.8	11.45	2.164	0.871	2.004	1.460	169.4	1.328
France	(FFr)	61.15	11.29	10	2.961	1.097	2877	3.334	12.30	299.1	249.2	12.92	2.443	0.983	2.262	1.647	191.2	1.499
Germany	(DM)	20.65	3.812	3.378	1	0.370	971.6	1.126	4.155	101.0	84.18	4.363	0.825	0.332	0.764	0.556	64.57	0.506
Ireland	(I£)	55.78	10.29	9.118	2.700	1	2623	3.040	11.22	272.7	227.3	11.78	2.227	0.896	2.063	1.502	174.3	1.367

UK INTEREST RATES

LONDON MONEY RATES

BASE LENDING RATES

EMS EUROPEAN CURRENCY UNIT RATES

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

NOTICE OF REDEMPTION

BANQUE INTERNATIONALE A LUXEMBOURG S.A.

NZD 20,000,000 FIXED/FLOATING RATE CALLABLE NOTES DUE 2000

Issued under the USD 2,000,000,000 MTN Programme

Notice is hereby given that, in accordance with Condition 6 of the Terms and Conditions of the Notes, all of the Bonds will be redeemed at the option of the Issuer at their principal amount on July 31, 1997.

Interest on the Notes will cease to accrue on and after the Redemption Date.

BANQUE INTERNATIONALE A LUXEMBOURG

OFFSHORE AND OVERSEAS

COMMODITIES AND AGRICULTURE

Norilsk puts Italian smelter scheme in doubt

By Kenneth Gooding, Mining Correspondent

A $264m scheme to convert the Crotone zinc smelter in Italy so that it could produce nickel, copper and cobalt from raw material supplied from the Norilsk group in Russia has run into serious problems.

The situation has implications not only for the zinc market, which is currently riding high, but also for future western investment in Russia.

Osmium Holdings, owned by UK and US investors, last year signed agreements with Norilsk to process 11m tonnes of low-grade concentrate (an intermediate material) at present held in waste dams and then ship the upgraded concentrate to Italy for further refining. But new management at Norilsk is insisting on reviewing the agreements and says it will need two or three months to decide if it would be more profitable for the Russian group to process the material itself.

Consequently, Osmium has told Ente Nazionale Idrocarburi, the Italian state energy group that owns the Crotone smelter, it would not be able to meet the July 31 deadline to buy the facility. This has raised fears that Eni might start the permanent closure of the smelter, which produces about 100,000 tonnes of zinc a year (roughly 1.85 per cent of the western world total) when the zinc market is widely expected to show a substantial supply deficit. London Metal Exchange prices are reflecting this situation, having jumped nearly $300 a tonne, or more than 25 per cent, this year.

However, Mr Angus Macmillan, research manager at Billiton Metals, said: "I would be surprised if Eni closed the smelter. It is in an area of high unemployment and, although it is old and not particularly efficient, at today's prices it should be profitable."

Billiton is forecasting a zinc supply deficit of 250,000 tonnes this year and one of 120,000 tonnes in 1998. Mr Macmillan suggested the timing of Crotone's closure would be important. "If it takes some time, the impact will be lessened by the additions to [zinc production] capacity planned for the next couple of years."

Osmium, which has SBC Warburg, the investment bank, as its financial adviser and one of its shareholders, has said it would keep all 450 employees at Crotone if its scheme went ahead. It hoped to produce 17,000 tonnes of nickel, 8,400 tonnes of copper and 320 tonnes of cobalt a year.

The company said it also expected that European Union and government grants would cover about $100m of the estimated $264m capital cost.

Some Osmium shareholders are furious at Norilsk's failure to honour legally binding agreements. But an Osmium spokesman said: "Osmium is still greatly committed to the project. If the deal can get back on track before the end of this year, it may be possible to renegotiate the arrangements with Eni."

Worst may be over for NZ wool

By Terry Hall in Wellington

New Zealand's wool prices ended the 1996-97 season little changed from a year earlier, despite being sharply lower for much of the time.

A late surge in demand for all types of wool, encouraged by supply shortages, saw the market indicator finish 1996-97 at NZ$4.63 a kilo, just one cent lower than a year before.

Optimists are taking the sharply improved tone of last month's sales as a positive sign that the worst may be over, and that prices will strengthen over the coming 12 months, boosted by the hoped-for recovery in the commodity cycle.

The strength of the market in the closing stages of the year saw the wool indicator hitting the season's high of NZ$4.73 a kg at the Christchurch sale on June 19, although it slipped back to NZ$4.63 at the final sale in late June. Two months ago, in April and May, the average auction prices were hovering just over NZ$4.

However, despite the end-of-season buoyancy, the provisional figures from Wools of New Zealand, published yesterday, suggest the average price for the season as a whole was NZ$4.49, 9 per cent lower than last season's average of NZ$4.94 cents a kg.

One factor was the strong New Zealand dollar, which helped depress prices for much of the season. The provisional figures show the wool trade weighted index (which measures the currency of the main wool buying nations against the New Zealand dollar) averaged 130.6, 7 per cent up on the previous season.

Prices increased for all types in June, with the fine, medium and lambswools all recording new season's highs.

Premium on copper eases

MARKETS REPORT

By Kenneth Gooding and Gary Mead

The premium for copper for immediate delivery on the London Metal Exchange eased slightly yesterday after the LME reported a big jump in the stocks in its authorised warehouses on Tuesday - of 17,025 tonnes, or nearly 12 per cent, to 160,325 tonnes.

The premium, to the price of copper for three-month delivery, shrank to $185-$195 a tonne from a peak of $270 on Tuesday.

The increase in stocks had been widely anticipated - and more are expected - because the technical squeeze on the LME has pushed London copper prices well above those on the New York Commodity Exchange. This has encouraged copper merchants to shift material from Comex to LME warehouses.

Meanwhile, there were warnings that another technical squeeze was building. "The zinc market is gearing up for an approaching period of technical tightness, concentrated in late September and early October," said Mr Alan Williamson, analyst at Deutsche Morgan Grenfell.

Traders suggested China's big Zhuzhou zinc smelter had built up a large short position. "As a smelter, it can produce more metal but it seems to be having difficulties getting enough raw material," said one.

Three-month tin prices dropped to their lowest for more than two years. Traders said selling by investment funds caused the drop, which was exacerbated when tin crashed through $5,500 a tonne, a key technical support level.

Robusta coffee futures managed to stage a small rally on the London International Financial Futures Exchange, with the benchmark September contract closing at $1,620 a tonne, up some $35.

However, the day's trading was once again volatile and the contract had touched a five-month low point of $1,530 in the morning.

On the International Petroleum Exchange the price for Brent crude oil for delivery in September dropped 10 cents a barrel from the London opening price to $18.32 a barrel in late trading.

The drift downwards was propelled by a widespread belief that Iraq's return to supply will depress the market further.

Farmers give animals outside chance

Outdoor pigs eat more than their indoor counterparts, but health costs are generally lower

"If it's cold and wet, it's no fun being an outdoor pig," admits Mr David Black, who keeps 5,000 sows on his farm in Bacton, Suffolk. Yet consumer perceptions that outdoor pigs lead a more natural existence have persuaded him to keep 2,000 of his sows outdoors.

In the post-war era of cheap food, pigs were brought indoors and hens put in cages to cut production costs. Now the tide is turning, and consumers are increasingly concerned about animal welfare.

That trend, communicated to farmers by the supermarkets, led Mr Black to reverse the practice of his father's generation and move some pigs outside. Of the 2,000 outdoors, 850 are monitored under the Royal Society for the Prevention of Cruelty to Animals' Freedom Food scheme, and their offspring are sold to Tesco, the grocery chain. Others provide meat for Marks and Spencer's food departments.

The Freedom Food labelling scheme was launched three years ago in an attempt to raise living standards for the 750m farm animals in the UK. It involves annual inspections - paid for by farmers - and spot checks to see that farmers are sticking to guidelines set for each type of animal. Further funding comes from a producer levy and a retailer royalty.

According to Mr Mike Sharpe, general manager of Freedom Food, the aim is to improve the lot of the largest possible number of animals, through "strict but achievable" standards, rather than aim for welfare targets only a few farmers could attain.

Animal welfare is an increasing concern for shoppers, according to a recent opinion poll carried out for the RSPCA by NOP. It found 78 per cent of UK adults wanted "better welfare conditions" for farm animals and 69 per cent of consumers were "willing to pay more for a product from a humanely reared animal".

Mr Black is somewhat sceptical. He thinks it is easy for customers to say that in surveys, but when they get to the checkout a higher price might deter them. Tesco agrees, and has decided to sell Freedom Food meat at the same price as that from conventionally reared animals, to see what demand would be if there were no premium.

However, while Tesco is charging the same price for its Freedom Food meat, the costs of keeping pigs outside are significantly higher. Feed is the main item; Mr Black says an outdoor sow eats 1.35 tonnes of feed a year, nearly 30 per cent more than an indoor pig.

Labour costs are higher for outdoor pigs, mortality rates are worse in winter, when cold weather can kill new-born piglets, but health costs are generally lower.

Mr Black charges Tesco a premium for the product. "It's costing us extra, it should be costing the customer extra. It's not a situation that can carry on."

Tesco regards the extra cost as "an investment on our part". It reckons that as the proportion of meat produced to higher welfare standards increases, there will be economies of scale, and as standards are rising for all farm animals, the premium for Freedom Food-produced meat will be eroded.

It has told its UK fresh pork suppliers they must abolish stalls and tethers from August 1 this year, 17 months before a UK ban takes effect. Mr Black says it will cost the "best part of £1m" to change from stalls for his indoor sows.

The economics are somewhat different for free-range eggs. Most of the large supermarkets stock Freedom Food eggs, in spite of premiums to battery eggs of nearly 40 per cent.

Mr Jeffrey Vergerson, managing director of Countryside Products, which organises a group of free-range egg producers, says one-third of eggs sold in supermarkets are free-range, although the 5m free-range birds account for only 15 per cent of the UK flock. Eggs used in catering and manufacturing are overwhelmingly from battery hens.

He says production costs for free-range eggs are 40 per cent higher than for battery eggs, but the price premium is only 15 per cent.

Mr Black and Mr Vergerson say increasing imports of food from countries with lower standards could undermine their efforts. Mr Vergerson blames a recent big shipment of battery egg products from the US for the weakness in the egg market, which has dragged down free-range prices.

Higher standards of animal welfare might cost farmers more. But if consumers are prepared to demand them - and pay for them - they could give farmers a competitive advantage.

Maggie Urry

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1537.5-8.5	1566-7
Previous	1539.5-40.5	1568-9
High/low		1572/1545
AM Official	1532-3	1560-60.5
Kerb close		1570-71
Open int.	259,831	
Total daily turnover	109,475	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1390-95	1420-25
Previous	1390-95	1420-25
High/low		1430/1420
AM Official	1397-400	1425-30
Kerb close		1423-8
Open int.	5,114	
Total daily turnover	1,781	

■ LEAD ($ per tonne)

Close	627-8	640-41
Previous	628-9	643-4
High/low		640/628
AM Official	616-7	631.5-2.0
Kerb close		632-3
Open int.	38,246	
Total daily turnover	16,307	

■ NICKEL ($ per tonne)

Close	6610-20	6725-35
Previous	6755-65	6870-80
High/low		6880/6715
AM Official	6705-10	6810-15
Kerb close		6740-50
Open int.	50,006	
Total daily turnover	13,943	

■ TIN ($ per tonne)

Close	5370-80	5430-35
Previous	5475-85	5530-40
High/low		5530/5420
AM Official	5404-5	5455-60
Kerb close		5445-50
Open int.	13,511	
Total daily turnover	5,977	

■ ZINC, special high grade ($ per tonne)

Close	1490.5-2.5	1495-7
Previous	1485-6	1494-5
High/low		1505/1480
AM Official	1481-2	1490-91
Kerb close		1494-5
Open int.	95,729	
Total daily turnover	34,826	

■ COPPER, grade A ($ per tonne)

Close	2443-6	2264-5
Previous	2532-5	2287-8
High/low	2460/2453	2280/2247
AM Official	2454-5	2263-4
Kerb close		2265-6
Open int.	142,852	
Total daily turnover	69,820	

■ LME AM Official £/$ rate: 1.6750
LME Closing £/$ rate: 1.6755

Spot: 1.6745 3 mths: 1.6694 6 mths: 1.6636 9 mths: 1.6584

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	107.00	-1.10	107.50	106.40	1,103	4,869
Aug	104.05	-1.15	104.60	103.40	157	3,986
Sep	103.80	-0.90	104.70	102.80	4,053	22,855
Oct	102.90	-0.80	103.30	103.00	57	1,473
Nov	102.70	-0.90	102.70	102.50	4	1,255
Dec	101.90	-0.80	102.30	101.50	502	7,968
Total					6,270	58,099

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	318.90-319.40		
Opening	318.90-319.20		
Morning fix	319.50	190.315	471.283
Afternoon fix	319.50	190.632	473.819
Day's High	321.50-321.80		
Day's Low	318.80-319.20		
Previous close	319.90-320.40		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....2.86 6 months 3.44
2 months ....3.07 12 months 3.62
3 months 3.35

Silver Fix	p/troy oz.	US cts equiv.
Spot	257.25	431.75
3 months	261.00	436.65
6 months	265.05	442.00
1 year	272.85	452.20

Gold Coins	$ price	£ equiv.
Krugerrand	320-322	191-193
Maple Leaf	-	-
New Sovereign	75-78	45-47

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	318.0	-0.3	-	-	4	2
Aug	318.7	-0.3	322.0	317.6	26,986	105.2k
Sep	319.3	-0.3	-	-	4	2
Oct	320.2	-0.2	323.2	320.0	530	11,059
Dec	322.1	-0.3	325.5	321.6	5,449	40,939
Feb	324.1	-0.3	326.0	324.2	77	10,072
Total					34,181	217,370

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jul	405.2	+4.8	404.5	402.0	67	625
Oct	395.2	+8.8	393.0	385.7	1,095	9,688
Jan	390.2	+8.8	386.0	384.8	30	1,876
Apr	390.2	+8.8	-	-	-	149
Total					1,192	12,338

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Sep	157.65	+5.35	157.75	154.50	311	4,107
Dec	155.15	+5.35	154.00	153.50	87	954
Mar	153.65	+4.35	-	-	-	25
Jun	152.15	+2.35	-	-	-	105
Total					398	5,191

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Jul	415.5	-11.3	430.0	427.5	101	194
Aug	415.8	-11.2	-	-	-	-
Sep	418.5	-11.2	433.5	418.0	12,716	64,477
Dec	424.6	-11.3	439.5	424.0	1,682	15,445
Jan	426.3	-11.4	440.5	440.5	2	19
Mar	430.6	-11.5	448.0	439.5	49	9,427
Total					14,827	99,155

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	19.53	-0.14	19.80	19.51	61,633	54,075
Sep	19.66	-0.10	19.85	19.63	43,300	70,442
Oct	19.69	-0.14	19.89	19.69	6,908	42,098
Nov	19.75	-0.14	19.90	19.73	4,103	21,674
Dec	19.74	-0.19	19.95	19.74	4,659	45,209
Jan	19.85	-0.11	19.92	19.80	1,008	24,221
Total					127,058	410,160

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	18.38	-0.01	18.45	18.31	8,416	10,451
Sep	18.34	-0.03	18.45	18.30	19,238	84,319
Oct	18.45	-	18.54	18.43	5,078	19,943
Nov	18.58	+0.03	18.61	18.52	1,187	17,241
Dec	18.66	+0.02	18.70	18.60	886	16,132
Jan	18.66	+0.01	18.69	18.60	327	11,637
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls., c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	52.45	-0.50	53.10	52.40	13,054	32,144
Sep	53.15	-0.48	53.70	53.15	7,079	28,026
Oct	53.90	-0.43	54.40	53.85	2,943	22,716
Nov	54.95	-0.23	55.25	54.80	2,624	17,146
Dec	55.80	-0.18	56.10	55.60	2,147	18,137
Jan	56.40	-0.13	56.60	56.30	661	13,924
Total					29,167	155,669

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	163.75	+1.00	165.00	163.00	6,095	24,806
Sep	165.75	+1.50	166.25	164.50	3,347	8,500
Oct	168.00	+1.50	168.50	167.25	876	7,907
Nov	169.75	+1.75	169.75	169.50	482	5,284
Dec	171.25	+1.75	171.50	170.75	729	10,262
Jan	172.00	+1.75	172.25	171.50	233	6,357
Total					10,976	72,629

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	2.204	+0.042	2.205	2.158	18,174	29,682
Sep	2.180	+0.024	2.185	2.153	8,252	28,949
Oct	2.185	+0.025	2.185	2.155	4,373	25,424
Nov	2.290	-	2.310	2.290	2,698	12,175
Dec	2.420	-	2.440	2.420	1,093	15,050
Jan	2.475	+0.017	2.485	2.455	1,016	15,634
Total					34,795	199,185

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	60.20	+0.26	61.00	59.90	16,978	30,101
Sep	58.25	-0.06	58.80	58.15	6,652	20,730
Oct	56.60	-0.01	56.85	56.50	2,717	8,568
Nov	55.95	+0.11	55.95	55.85	425	3,379
Dec	55.50	-	55.80	55.45	433	6,485
Jan	57.25	+1.50	-	-	283	5,358
Total					27,888	80,707

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	81.05	+0.30	-	-	-	229
Nov	83.05	+0.05	83.05	82.90	116	3,720
Jan	85.20	+0.05	85.25	85.00	18	2,064
Mar	87.20	+0.15	-	-	-	1,028
May	89.20	-0.05	89.25	89.00	42	708
Total					176	7,765

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Jul	325.00	-7.00	330.00	325.00	2,574	1,099
Sep	331.50	-6.75	338.00	331.00	13,410	41,745
Dec	347.00	-5.75	352.50	346.50	7,442	36,873
Mar	355.50	-6.00	360.50	355.00	808	6,624
May	355.00	-5.00	361.00	355.00	64	890
Jul	356.00	-3.00	361.50	356.00	203	3,273
Total					24,501	90,625

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Jul	266.50	-4.25	269.00	264.75	5,432	8,783
Sep	250.00	-6.00	255.75	249.00	28,439	62,548
Dec	250.75	-5.75	258.00	249.50	83,221	144,492
Mar	258.75	-6.25	264.00	258.00	7,122	28,995
May	264.00	-6.50	269.00	264.00	532	5,398
Jul	266.75	-6.75	272.50	266.50	605	8,666
Total					126,085	264,986

■ BARLEY LIFFE (100 tonnes; £ per tonne)

Sep	76.25	-0.50	-	-	-	33
Nov	78.75	-0.50	79.25	78.75	20	1,053
Jan	80.75	-0.50	81.25	80.75	4	192
Mar	82.50	-0.50	-	-	-	33
May	83.75	-0.50	-	-	-	9
Total					24	1,320

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Jul	782.00	-28.00	806.00	777.00	1,241	2,528
Aug	745.50	-30.00	774.50	745.50	14,966	34,417
Sep	653.00	-24.50	675.00	652.00	3,653	13,047
Nov	609.00	-16.75	624.00	606.00	30,976	70,471
Jan	612.50	-16.25	620.00	611.00	877	14,703
Mar	619.00	-17.50	628.00	619.00	449	4,345
Total					52,744	145,166

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Jul	22.14	-0.55	22.55	22.12	1,691	2,169
Aug	22.26	-0.53	22.80	22.25	8,940	20,548
Sep	22.42	-0.51	22.83	22.41	2,863	16,056
Oct	22.44	-0.51	22.85	22.43	965	14,295
Dec	22.60	-0.49	23.00	22.59	9,634	39,031
Jan	22.72	-0.48	23.08	22.71	125	5,658
Total					24,354	102,631

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Jul	265.8	-6.9	271.8	265.5	1,862	4,239
Aug	244.4	-7.5	250.0	243.8	10,400	25,342
Sep	222.9	-6.5	227.5	222.5	2,273	16,827
Oct	204.4	-5.4	207.5	202.5	1,160	14,630
Dec	196.3	-5.9	199.2	195.0	5,996	35,705
Jan	195.1	-5.6	197.5	194.0	252	5,376
Total					22,596	113,938

■ POTATOES LIFFE (20 tonnes; £ per tonne)

Nov	40.0	-	-	-	-	9
Mar	60.0	-	-	-	-	-
Apr	73.0	+4.0	75.0	67.0	146	1,089
May	78.0	-	-	-	-	2
Jun	90.0	-	-	-	-	-
Total					146	1,100

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Jul	1350	+14	1350	1335	55	1,185
Aug	1305	+40	1305	1290	51	595
Sep	1325	+25	1325	1299	53	210
Oct	1430	+10	1430	1425	8	1,283
Jan	1440	+10	1440	1435	6	154
Total					173	3,417

	Close	Prev
BFI	1389	1369

FUTURES DATA

All futures data supplied by CMS.

Nuts and seeds

Prices from Kenkko; US$ a tonne. **Iranian pistachios** 28/30 raw (in shell) naturally opened (round): RPPC prices at 4,350 FCA. market slow during summer months. **Walnuts** US jumbo inshell: 2,300 CPT Europe few goods in cool storage. **Turkish hazelnuts** standard No 1: 13/15 + 11/13 prompt at 4750. Uneasy due to exchange rates. **Iranian apricots halves:** 1,800 CFR for top quality industrial goods. **Indian cashews:** crop 1997 from top shipper: W320 at 5,500, W240 at 5,950. market rising slowly. **US almonds:** crop 1997, St. 5% at 5,300 FCA Hamburg and at 3,950 for Oct. ship. New estimate at 680 mill. LB. **Spanish Umelval almonds:** at 4,750 DDP Europe. **Coconut:** 1,050 from CFR Philippine. **Russian Snow White pumpkinseeds:** crop 96 long type at 2,000 CFR MEP.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1032	+2	-	-	-	417
Sep	1047	+2	1052	1038	1,260	29,679
Dec	1074	+4	1076	1063	1,295	37,476
Mar	1094	+5	1097	1084	334	46,536
May	1110	+6	1110	1100	458	19,742
Jul	1124	+7	1126	1112	326	6,433
Total					3,962	168,986

■ COCOA CSCE (10 tonnes; $/tonnes)

Jul	1571	-12	1588	1545	11	41
Sep	1576	-19	1591	1570	3,574	32,175
Dec	1625	-18	1636	1619	1,802	23,012
Mar	1660	-16	1666	1654	377	21,786
May	1680	-16	1685	1677	75	10,087
Jul	1696	-16	1696	1696	30	1,149
Total					6,242	102,426

■ COCOA (ICCO) (SDR's/tonne)

Jul 15	Price	Prev. day
Daily	1234.01	1227.00

■ COFFEE LIFFE (5 tonnes; $/tonne)

Jul	1600	+35	1585	1525	147	1,493
Sep	1620	+35	1620	1530	5,755	22,904
Nov	1610	+35	1610	1500	2,500	13,156
Jan	1575	+25	1575	1500	728	4,447
Mar	1550	+25	1525	1480	86	1,193
May	1535	+25	1510	1510	20	67
Total					9,236	43,260

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Jul	187.25	+2.75	188.00	182.50	73	341
Sep	161.50	+3.65	164.25	158.00	3,716	11,028
Dec	148.30	+2.40	150.50	145.50	1,551	5,568
Mar	138.75	+0.25	141.00	138.10	560	2,613
May	135.50	+0.25	136.50	136.00	74	802
Jul	134.50	+0.20	-	-	41	295
Total					6,023	20,889

■ COFFEE (ICO) (US cents/pound)

Jul 15		Prev. day
Comp. daily	126.67	131.94
15 day average	138.27	139.48

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

Aug	326.3	-1.1	345.0	327.2	882	1,299
Oct	322.8	+5.6	323.0	316.3	3,123	10,855
Dec	318.9	+4.9	318.5	313.5	214	4,855
Mar	320.0	+4.8	318.3	315.0	721	5,486
May	319.8	+4.8	319.0	315.0	250	1,201
Aug	314.0	+2.8	-	-	-	985
Total					5,055	25,864

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Oct	11.30	+0.33	11.34	10.96	16,002	90,349
Mar	11.47	+0.31	11.49	11.16	3,452	43,745
May	11.33	+0.25	11.35	11.08	978	10,493
Jul	11.25	+0.23	11.20	11.01	558	5,185
Oct	11.14	+0.18	11.10	10.95	457	2,235
Mar	11.08	+0.15	10.96	10.96	25	734
Total					21,472	152,791

■ COTTON NYCE (50,000lbs; cents/lbs)

Oct	74.18	-0.06	74.35	73.85	2,979	12,320
Dec	74.20	-0.04	74.32	73.76	12,371	46,707
Mar	75.40	-0.03	75.55	75.15	909	9,541
May	76.05	-0.05	76.15	75.75	95	2,367
Jul	76.65	+0.05	76.75	76.60	135	1,445
Oct	74.90	-0.10	75.00	75.00	9	291
Total					16,563	77,886

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Sep	74.80	+0.30	75.10	74.00	697	19,621
Nov	77.45	+0.25	77.70	76.80	218	6,752
Jan	80.40	+0.10	80.70	80.00	88	2,722
Mar	83.30	-0.25	83.80	83.00	167	1,861
May	86.30	-0.25	86.40	86.00	6	400
Jul	89.30	-0.25	-	-	6	77
Total					1,182	31,513

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jul 15	Jul 14	month ago	year ago
1897.8	1903.7	2015.7	1987.6

■ CRB Futures (Base: 1967 = 100)

Jul 14	Jul 11	month ago	year ago
236.15	234.51		

■ GSCI Spot (Base: 1970 = 100)

Jul 14	Jul 11	month ago	year ago
184.89	182.99	185.10	211.01

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-1,100	to	658,850
Aluminium alloy	-280	to	57,240
Copper	+17,025	to	160,325
Lead	nc	to	117,300
Nickel	+756	to	53,790
Zinc	-500	to	419,250
Tin	-35	to	11,880

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	66.650	+0.800	66.900	66.025	9,531	34,729
Oct	69.575	+0.850	69.700	69.000	6,948	32,582
Dec	71.475	+0.575	71.700	70.900	2,450	15,974
Feb	73.475	+0.750	73.550	72.900	854	8,222
Apr	75.275	+0.550	75.375	74.800	506	3,399
Jun	71.750	+0.450	72.050	71.300	184	2,418
Total					20,516	97,476

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Aug	80.650	-0.325	81.350	80.300	5,716	12,898
Oct	73.900	-0.275	74.450	73.450	2,594	11,938
Dec	70.900	-0.275	71.300	70.425	771	5,283
Feb	69.475	-0.175	69.700	68.900	104	1,899
Apr	64.725	-0.225	64.950	64.150	87	1,280
Jun	68.200	-0.4	68.600	68.000	39	732
Total					10,407	36,843

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Jul	85.600	-0.2	86.400	84.700	217	509
Aug	82.425	-0.35	83.450	81.875	2,191	4,544
Feb	70.725	-0.725	71.600	70.325	235	875
Mar	70.000	-0.2	70.000	70.000	1	19
Jul	73.500	-	-	-	3	5
Total					2,644	5,969

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Aug	Nov	Aug	Nov
1550	29	72	22	45
1575	17	60	35	57
1600	10	49	52	71

■ COPPER (Grade A) LME	Aug	Nov	Aug	Nov
2250	81	105	30	105
2300	51	83	50	132
2350	30	65	78	163

■ COFFEE LIFFE	Jul	Sep	Jul	Sep
1500	439	188	154	48
1550	411	139	176	69
1600	385	113	200	93

■ COCOA LIFFE	Jul	Sep	Jul	Sep
1025	73	51	-	29
1050	48	38	-	41
1075	24	27	1	55

■ BRENT CRUDE IPE	Sep	Oct	Sep	Oct
1750	-	-	29	-
1800	-	-	46	-
1850	54	-	72	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$17.24-7.31	+0.275
Brent Blend (dated)	$18.37-8.42	+0.48
Brent Blend (Sep)	$18.38-8.41	+0.285
W.T.I.	$19.76-9.78w	

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$194-198	+1
Gas Oil	$164-166	+0.5
Heavy Fuel Oil	$82-84	
Naphtha	$180-182	+6
Jet fuel	$179-181	+0.5
Diesel	$168-169	+1

■ NATURAL GAS (Pence/therm)		
Bacton (Aug)	9.50-9.60	+0.05

Petroleum Argus. Tel. London (0171) 359 8792

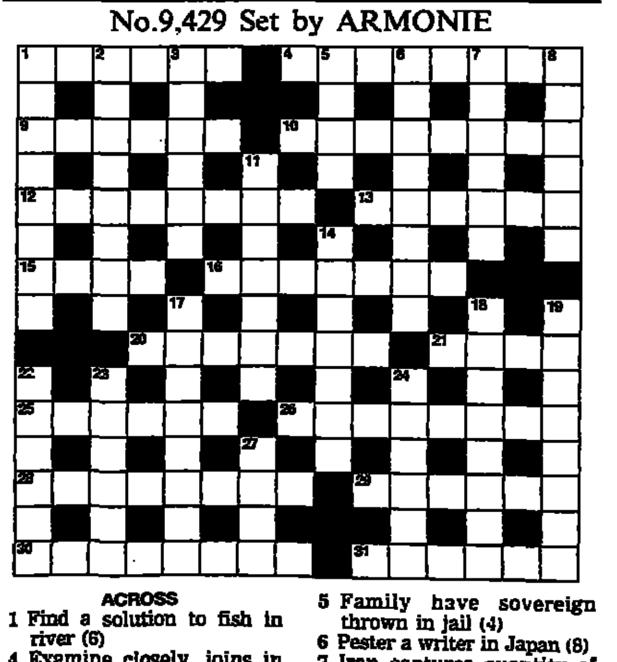
■ OTHER		
IPE (Aug)	9.445	+0.025
Gold (per troy oz)♣	$319.15	-1.00
Silver (per troy oz)♣	432.00c	-2.00
Platinum (per troy oz.)	$407.50	+3.50
Palladium (per troy oz.)	$175.25	+3.25
Copper	114.0c	-2.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	13.79r	-0.06
Tin (New York)	258.5	-3.0
Cattle (live weight)	97.18p	-2.40*
Sheep (live weight)	105.81p	-13.55*
Pigs (live weight)†	86.33p	-3.60*
Lon. day sugar (raw)	$265.50	-3.30
Lon. day sugar (wte)	$326.30	+1.10
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Aug)¥	60.00p	
Rubber (Sep)¥	60.00p	
Rubber (KL RSS No1)	233.5x	+2.5
Coconut Oil (Phil)§	600.0y	-15.0
Palm Oil (Malay.)§	502.5z	-2.5
Copra (Phil)§	$410.0y	-2.5
Soyabeans (US)	204.0	
Cotton Outlook'A' index	80.80c	
Wooltops (64s Super)	420p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jul/Aug. z Aug. w Sep. ¥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 4,315 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,429 Set by ARMONIE



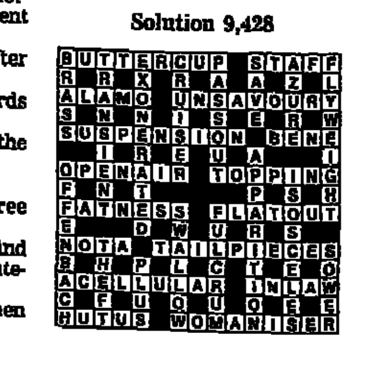
ACROSS

1 Find a solution to fish in river (6)
4 Examine closely, joins in women's underwear (8)
9 Force hospital into consortium (6)
10 Fellow to wander round Germany for evergreen tree (8)
12 Timber for clubs (8)
13 Profess to being reported "A Sure Thing" (6)
15 Cut head from plant (4)
16 Oversight creating major road risk (7)
20 ICI held wild function with singing and dancing (7)
21 Libertarian right in charge (4)
25 To some extent having pounds and rands exchanged is worthless (6)
26 Concede to mistress and surprise greatly (4,4)
28 It's understood I'm authorised to follow the president (8)
29 Oddball is to clean after water restriction (6)
30 Wall decoration records endeavour (8)
31 "Make a reduction in the class", we're told (6)

DOWN

1 Intricate - like "Three Blind Mice"? (8)
2 Brush under vehicle to find case of combustible material (8)
3 Renounce the islands when in drink (6)
5 Family have sovereign thrown in jail (4)
6 Pester a writer in Japan (8)
7 Iran captures quantity of chemical similar to another (8)
8 Seat is designed for rest (6)
11 Animal found stream in Indian state (7)
14 Workshops where academic's not acceptable (7)
17 Tight young woman's lucky escape (4,4)
18 Book having special type of word in mostly ordinary language (8)
19 Oppress individual with whiskers on (4,4)
22 Indulged in pistol-waving (6)
23 Is it a mistake having lager? (4-2)
24 Maintain member is in drink (6)
27 One securing a bank (4)

Solution 9,428



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FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

IRELAND (REGULATED)(**)

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CROSSWORD

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

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FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

Approved by the Inland Revenue

Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

صكذا من الاصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange and has less demanding rules than the SE Official List.

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind R		£28¼	---	*£29½	£20¼	2,811	2.7	ϕ
Barlow	♣†	£9⅞	+⅛	£7⅞	£5⅞	1,386	2.1	14.5
Gold Flds Prop R	†	178½	+1½	188½	120	17.4	5.0	13.3
SA Brews		£18⅝	+⅛	£19⅝	£13¼	5,440	2.0	ϕ
Standard Bank		£28⅞	+⅞	£30	£21	3,408	1.9	ϕ
Tiger Oats	†	1027	+2	1180	790	1,882	1.8	20.1
Tongaat-Hulett		734½xd	-½	811	676½	713.4	2.5	ϕ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise noted. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 21(a)(iv) Overseas incorporated companies listed on an approved exchange
- ♣ Free annual/interim report available, see details below
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies
- ✱ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield, p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98
R Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
N Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xp ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

Footsie falters on the brink of the 5,000 level

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The London equity market was rampant yesterday, with the FTSE 100 index driving ahead to challenge the 5,000 level and hitting new intra-day and closing highs.

Once again, the banking and pharmaceutical sectors powered the market's rise, but there was plenty of help too from Wall Street's seemingly relentless advance. The Dow Jones Industrial Average passed 8,000 in early US trading.

A long list of UK and US economic news provided no downside shocks for either market: on the contrary, news of a fall in unemployment, plus a smaller than expected increase in underlying average earnings, were viewed as encouraging for sentiment in London.

In mid-afternoon, Footsie was tantalisingly close to 5,000, reaching an intra-day high of 4,991.8, up 92.5. By the close, the gain had slipped to 64.9 points but the index still set a closing record of 4,956.9, and extended its sequence of winning performances to six straight sessions. The last three trading days have seen the leading index race up 164.7 points or 3.7 per cent.

In the US, the 0.1 per cent rise in inflation during June was well received by Wall Street and the Dow, which climbed 52 points on Tuesday, quickly pushed through the 8,000 level.

The other FTSE indices were left floundering in the wake of the FTSE 100's advance. The FTSE 250, although up 36.0 at 4,487.5, remains well short of its all-time high. And the FTSE SmallCap continued to underperform, ending the day 1.4 down at 2,203.8. The SmallCap reached an intra-day peak of 2,375.2 back on March 12.

The FTSE All-Share index powered ahead to finish 28.2 up at 2,316.03.

Dealers said Footsie "looks set to break through the 5,000 level today, given a reasonable performance by the Dow".

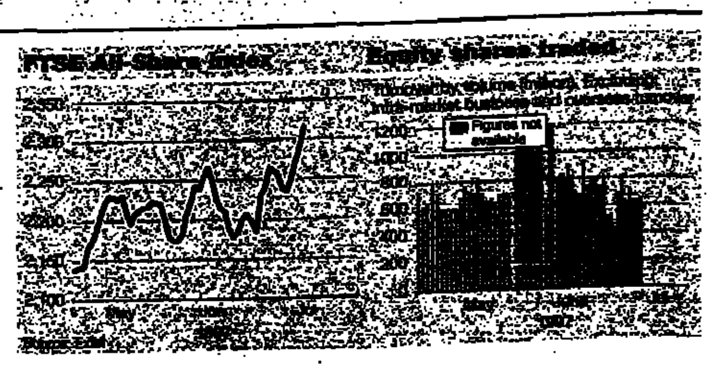
The head of marketmaking at one big London-based securities house said: "There is no stopping this market yet; there is a shortage of the good quality stocks that overseas fund managers want to buy; that is enough to get London through 5,000 and beyond."

He insisted that the recent takeover and merger talk had played only a minor part in the market's decisive upward move in recent sessions. "That obviously helped to get the market moving, but it is the build up of liquidity, from home and abroad, that has been behind the surge," he said.

The expiry of the July series of stock options was cited by some as adding to the upside pressure, but that story was played down by senior marketmakers. The September Footsie future powered past the 5,000 mark.

London was just one of a host of European stock markets, including Frankfurt and Paris, making rapid progress yesterday.

The surge in share prices was accompanied by a further increase in turnover. At 6pm the total volume of shares traded came out at 1.05bn, well ahead of recent daily levels.



Indices and ratios

FTSE 100	4984.2	+64.9	FT 30	3128.1	+29.8
FTSE 250	4487.5	+36.0	FTSE Non-Fins p/e	19.47	19.30
FTSE 350	2373.7	+28.8	FTSE100 Fut Sep	5016.0	+84.0
FTSE All-Share	2316.03	+26.22	10 yr Gilt yield	7.12	7.15
FTSE All-Share yield	3.35	3.39	Long gilt/equity yld ratio	2.13	2.12

Best performing sectors

1 Banks: Retail .... +2.6
2 Alcoholic Beverages .... +2.0
3 Oil: Integrated .... +2.0
4 Mineral Extraction .... +1.7
5 Water .... +1.7

Worst performing sectors

1 Support Services .... -0.9
2 Electronic & Elec .... -0.7
3 Telecommunications .... -0.3
4 Textiles & Apparel .... +0.0
5 Tobacco .... +0.1

Squeeze drives HSBC

Bear-hugging squeezes saw some of the market's biggest stocks record extraordinary leaps. HSBC, which has a market value of £56bn, led the pack for much of the day to record a gain of 10 per cent at one point over the past two days.

The shares have been helped by broker recommendations ahead of the interim figures and big gains in the Hang Seng index, of which HSBC is a big constituent.

One of the more enthusiastic recommendations comes from Lehman Brothers' technical analysts in the US.

The chartists argued that the FTSE banks index had "technically broken out and now is resting on support (formerly resistance). Given the uninspiring performance of gilts we'd like to see the FTSE bank index move above 7,100 to confirm the break-out. Such action would imply a target of 7,800; an 11 per cent gain."

Yesterday, the banks index shot forward to 7,302.0, well above the resistance/support level and gilts – weak recently and thus a restraining influence on bank stocks, which tend to follow the fortunes of government bonds – moved forward by almost half a point at the long end.

HSBC was up more than 100p in both classes of stock but slipped later to close 75 higher at £20.73¾p in the HK$ stock and 65 up at £21.51p in the Ordinaries. Both Credit Lyonnais Laing and Dresdner Kleinwort Benson have recommended the stock up to £24.

Meanwhile, Zeneca – the most highly priced stock in the London market – shot forward almost another 100p before closing 67 better at £23.65.

The strong market trend combined with a broker's note to boost RMC Group. The shares appreciated 14 to 935p.

Agency broker Teather & Greenwood is among those that favour the stock. In a note to clients, David Taylor at the broker said: "It has usually been right to buy RMC on a PER (price earnings ratio) discount to market and the current near 20 per cent looks excessive. The market has been factoring currency-related downgrades into its valuation and, while these are necessary, there is a substantial offset from the better than expected trading news. The current share price bounce should continue, and any sign of a German construction recovery will lead to re-rating."

Redland, another of the sector's leading issues, was also in demand and the shares ended the day 8 ahead at 305½p.

Ashtead Group, which reported improved figures at the beginning of the week, was supported by a UBS "buy" recommendation. The shares firmed 2 to 311p. The UBS team said: "Astead's results were marginally ahead of our numbers and with signs of a recovery in UK demand and potentially, hire rates, a steady branch opening programme and still good prospects in the US, we remain convinced that the group will continue to deliver well above average rates of earnings growth."

TI Group rose 18½ to 511p with several brokers keen to point to the attractions of the group. The list of admirers includes NatWest Securities, which yesterday upgraded its recommendation on the stock from "hold" to "add" and indicated a share price target price of 560p a share.

Outlining its reasons for the change of stance, analysts at the broker said: "TI's strategy of building world leading businesses with a high knowledge and service content is set to deliver sustainable top-line growth and rising returns. The new management structure is focused on delivering organic growth, and with a "fourth leg" all but ruled out, the risk to growth is falling and the benefits of market leadership should become clearer."

A favourable annual meeting at precious metals and engineering group, Johnson Matthey, helped the shares advance 22½ to 556p.

Henderson Crosthwaite is a buyer of the shares and said yesterday's news from Medeva (its cautious trading outlook) hints at the threat poised by the imminent entry to the methylphenidate market by Johnson Matthey and its partner, a leading US generic drug manufacturer and distributor. "We believe JM and its partner to have sales agreements in place, which will enable them to capture between 15-20 per cent of this market in its first year, rising to 30-35 per cent by the year 2000," said the broker.

British-Borneo lost ground after the oil production and exploration group announced a 2-for-9 rights issue at 212 a share to raise £167m. The stock closed 50 off at £13.62½p, although analysts said the fund raising was well-timed and would enable the group to extend its exploration programme.

Interim profits of £45.6m from Medeva were at the lower end of the forecast range but the fall in the share price was more strongly linked to fundamental product news. The company announced that sales of its obesity drug Ionamin had been hit by fears that it may cause hypertension. The shares dropped 34½ to 222p as analysts prepared to lower their full-year forecasts.

Commercial Union came off the boil after earlier pressure from the derivatives market where its stock option was expiring yesterday.

The shares were buoyed earlier by big short positions in the market but fell back to close 18 lower at 680½p.

Guardian Royal Exchange became the best performer in the FTSE 100 in late trading as general enthusiasm for financial stocks, the insurer's gearing to market rises and the return of perennial consolidation rumours sent the shares up 13 to 294½p.

Engineering and components distribution group Graystone said it had received a possible bid approach. It said the approach might lead to an offer at a significant premium to the current market value. The shares jumped 30½ to 86p.

Among food retailers, Somerfield underperformed the market, closing unchanged at 195¼p, following publication of a broker's "sell" recommendation.

Urging investors to take profits, Credit Lyonnais Laing said: "We see sales trends downwards, particularly in 1998/99 which will put severe downward pressure on operating margins."

In the water sector, a shortage of stock continued to drive several issues sharply ahead. Severn Trent put on 6½ to 882½p, while Thames raced ahead to close up 22½ at 794p.

South West also gained 22½ to 821½p, and United Utilities ended the day 19 ahead at 774p.

FT 30 INDEX

	Jul 16	Jul 15	Jul 14	Jul 11	Jul 10	Yr ago	*High	*Low
FT 30	3128.1	3098.3	3080.1	3052.7	3037.3	2700.4	3128.1	2668.8
Ord. div. yield	3.50	3.53	3.55	3.60	3.62	4.13	4.22	3.50
P/E ratio net	18.98	18.79	18.68	18.46	18.31	15.97	18.98	15.80
P/E ratio nil	18.78	18.59	18.49	18.27	18.12	15.86	18.78	15.71

FT 30 since compilation: high 3128.1 16/07/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3104.3	3107.5	3111.8	3108.5	3116.0	3117.8	3125.8	3139.1	3129.6	3142.2	3103.5

	Jul 16	Jul 15	Jul 14	Jul 11	Jul 10	Yr ago
SEAQ bargains	59,786	53,014	51,584	53,604	49,160	24,016
Equity turnover (£m)†	–	NA	2772.4	2392.1	2063.9	1638.6
Equity bargains†	–	NA	46,073	46,814	43,683	29,494
Shares traded (ml)†	–	NA	794.1	641.7	635.5	540.6

†Excluding intra-market and overseas turnover but including Crest turnover.
 *For 1997.

■ **London market data**

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	877	Total Highs	212	Total contracts	111,110
Total Falls	613	Total Lows	85	Calls	69,402
Same	1,578			Puts	41,708

Jul 16 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	4946.0	5016.0	+84.0	5058.0	4945.0	22897	71386
Dec	5057.0	5079.0	+85.5	5120.0	5057.0	156	4679
Mar		5118.0	+86.0			0	101

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	4507.0	4540.0	+40.0	4507.0	4507.0	100	7117

■ FTSE 100 INDEX OPTION (LIFFE) (*4967) £10 per full index point

	4700 C	4700 P	4750 C	4750 P	4800 C	4800 P	4850 C	4850 P	4900 C	4900 P	4950 C	4950 P	5000 C	5000 P	5500 C	5500 P
Jul	288	1	249	1	199	1	149	2	102	5	59	12½	26	33	8	83
Aug	318½	14½	267	21	225	29	186	41	150	55	118½	74½	90	96	66½	124½
Sep	352	36	310	44	272½	56½	234½	69½	199	85	166½	105	139	126	114	152
Oct	373	42½	334	53	297	65½	259	78	227	95½	198	118	169	139	144½	168½
Dec†	445½	75½			379½	100			302½	133½			239	174		

Calls 22,364 Puts 8,387

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4725 C	4725 P	4775 C	4775 P	4825 C	4825 P	4875 C	4875 P	4925 C	4925 P	4975 C	4975 P	5025 C	5025 P	5075 C	5075 P
Jul	270½	1	221	1	171½	1½	123½	3½	79	9	41½	21	16	45½	4	83
Aug	288	18½	245½	24½	204	33	166	44½	131½	60	101½	80	76	104	55½	133
Sep	327	39½	287½	49	248½	61	214½	75	181½	92	152	111½	125	134	101½	160
Dec	419	75			345½	98½			279½	130			218½	186½		
Mar†	476	102½			407½	128			342	158			282	193		

Calls 29,128 Puts 23,109 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	95.5	185½	124½	Autonomy	185½	+6	W5.0	1.9	4.8	15.2
§180	F.P.	30.5	182½	149½	AIT	150½		L1.36	3.9	1.1	28.3
§100	F.P.	23.4	115	109½	Cantwell Laird	110	-2½	L3.8	2.1	4.3	10.6
§280	F.P.	13.8	275	265	Datcam	267½		L2.5	4.4	1.2	24.2
–	F.P.	2.02	28	24	†Euro Mining Fin	28		–	–	–	–
§180	F.P.	238.5	202	182½	Gallen Hldgs	187½	-4½	L0.9	5.7	0.6	31.8
§2.5	F.P.	3.00	3½	3	Greenwich Hdgs	3		–	–	–	–
§	F.P.	1.20	1	½	Grosvenor Hd Wt	1		–	–	–	–
§105	F.P.	62.6	147½	142½	Hitachi Cred UK	147½	+3	L4.3	1.4	3.6	24.4
§	F.P.	13.1	140½	130½	Primesight	130½		–	–	–	13.1
100	F.P.	32.8	112½	89	Rexbourne Media	100		–	–	–	–
§	F.P.	88	227	204½	Royalblue Grp	205½		1.5	2.6	0.9	52.9
§100	F.P.	7.77	120½	108½	SSB Group	109½		L2.4	2.0	2.7	19.3
§130	F.P.	117.0	157½	154½	SSB Group	156		L4.4	2.8	3.5	12.7
*	F.P.	4,808	373½	291½	Woolwich	300½	+1½	L7.2	2.1	3.3	18.0

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997 High	1997 Low	Stock	Closing price p	+or-
2	Nil	21/7	1¾pm	¾pm	Dragon Oil	¾pm	
270	Nil	5/8	70pm	45pm	HIT Enter	70pm	
20	Nil	29/7	27½pm	24pm	Mackie Intl	27pm	
17.5	Nil	22/7	1¼pm	¾pm	Marylebone Wrek	¾pm	

pm premium.

FTSE GOLD MINES INDEX

	Jul 16	% chg on day	Jul 15	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1224.59	-1.5	1244.58	2021.10	2.42	–	2254.55	1270.14
■ Regional Indices								
Africa (14)	1417.27	-2.2	1449.78	2769.03	5.55	22.69	2769.03	1324.06
Australasia (6)	1478.05	-0.3	1474.24	2308.37	3.55	17.15	2455.10	1336.10
North America (11)	1267.39	-1.5	1305.35	1775.71	1.69	65.34	1681.40	1244.23

 Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jul 16	Day's chge%	Jul 15	Jul 14	Jul 11	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4984.2	+1.3	4869.3	4857.4	4789.5	3693.4	3.29	2.04	18.65	89.09	2119.06
FTSE 250	4487.5	+0.8	4451.5	4423.9	4408.3	4225.2	3.70	1.61	21.01	94.48	1878.03
FTSE 250 ex IT	4493.5	+0.8	4449.9	4418.1	4402.9	4209.3	3.68	1.64	19.60	97.74	1880.63
FTSE 350	2373.7	+1.2	2344.9	2325.9	2301.8	1851.6	3.36	1.95	19.05	43.93	2070.35
FTSE 350 ex IT	2374.8	+1.2	2345.8	2326.8	2302.2	–	3.38	1.96	18.82	11.97	1062.35
FTSE 350 Higher Yield	2298.1	+1.1	2274.8	2264.6	2238.1	1780.4	4.55	1.76	15.59	55.04	1700.25
FTSE 350 Lower Yield	2452.7	+1.4	2419.8	2392.8	2370.6	1930.2	2.36	2.25	23.33	34.35	1749.48
FTSE SmallCap	2203.82	-0.1	2205.16	2205.43	2204.38	2096.50	3.21	1.74	22.42	40.24	1873.83
FTSE SmallCap ex IT	2184.13	-0.2	2185.86	2170.73	2171.05	2055.22	3.49	1.82	19.68	40.32	1856.06
FTSE All-Share	2316.03	+1.1	2289.81	2272.48	2250.41	1832.41	3.35	1.94	19.23	42.85	2050.23
FTSE All-Share ex IT	2317.02	+1.2	2290.67	2272.96	2250.40	–	3.39	1.96	18.86	11.92	1055.07

■ **FTSE Actuaries Industry Sectors**

	Jul 16	Day's chge%	Jul 15	Jul 14	Jul 11	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	4704.43	+1.7	4623.58	4627.21	4588.88	3322.47	3.25	2.01	19.14	88.73	2108.01
12 Extractive Industries(5)	4205.83	+0.4	4187.44	4227.03	4248.67	3982.42	3.74	2.38	14.02	104.80	1285.44
15 Oil, Integrated(3)	4948.23	+2.0	4848.64	4850.05	4802.86	3634.82	3.37	1.95	19.02	90.43	2276.41
18 Oil Exploration & Prod(12)	3849.29	+1.0	3808.88	3785.47	3745.87	2485.08	1.61	2.21	[illegible]	[illegible]	2358.92
20 GEN INDUSTRIALS(264)	1880.96	+0.5	1871.85	1863.84	1849.77	1977.96	4.26	1.86	15.59	43.99	1076.14
21 Building & Construction(36)	1348.12	+0.4	1342.98	1347.07	1344.76	1141.26	3.30	1.96	19.31	25.35	1172.89
22 Building Matls & Merchs(30)	1780.62	+0.6	1770.70	1762.90	1746.71	1881.96	4.59	2.82	9.79	41.89	941.15
23 Chemicals(26)	2476.30	+1.7	2435.75	2395.09	2317.75	2392.24	4.27	1.47	19.88	50.16	1232.79
24 Diversified Industrials(15)	1313.61	+0.4	1308.23	1303.01	1281.29	1490.86	5.67	1.97	11.18	38.47	779.41
25 Electronic & Elect Equip(37)	2009.26	-0.7	2023.48	2053.41	2054.15	2280.67	4.04	1.53	20.29	48.10	1092.15
26 Engineering(67)	2452.22	+0.5	2440.47	2418.71	2415.61	2408.96	3.50	2.26	15.79	47.05	1545.25
27 Engineering, Vehicles(13)	2788.05	+0.8	2765.07	2756.45	2745.85	2949.00	3.68	‡	‡	54.42	1500.87
28 Paper, Pckg & Printing(27)	1892.36	+0.2	1889.37	1890.23	1884.74	2567.80	5.56	1.80	12.48	55.49	826.13
29 Textiles & Apparel(14)	1032.87	....	1032.80	1013.11	1018.82	1308.73	6.78	0.99	18.67	41.67	679.71
30 CONSUMER GOODS(85)	4887.29	+1.0	4839.50	4814.62	4715.45	3516.87	3.15	1.81	21.95	87.28	1887.14
32 Alcoholic Beverages(7)	3473.43	+2.0	3404.80	3437.64	3442.87	2707.95	3.74	1.92	17.46	73.93	1319.63
33 Food Producers(25)	3059.87	+0.9	3032.24	3007.01	3009.35	2473.90	3.63	1.85	18.67	66.76	1449.29
34 Household Goods(17)	3126.38	+0.9	3099.97	3057.52	3044.60	2534.74	3.38	2.27	16.53	54.13	1285.47
36 Health Care(15)	2223.75	+0.5	2211.76	2192.45	2192.21	2049.82	2.75	1.66	27.27	36.49	1396.77
37 Pharmaceuticals(18)	8224.39	+0.9	8147.78	8090.13	7779.77	5095.30	2.25	1.72	32.42	103.76	2898.72
38 Tobacco(3)	4485.17	+0.1	4482.90	4449.04	4416.66	4231.21	6.26	1.81	11.01	158.73	1196.85
40 SERVICES(273)	2710.38	+0.7	2690.51	2671.59	2657.19	2454.68	2.85	1.98	21.41	46.80	1462.79
41 Distributors(30)	2702.55	+0.5	2689.52	2667.07	2659.87	2762.44	3.46	1.94	18.69	51.51	1035.59
42 Leisure & Hotels(31)	3202.97	+0.8	3178.05	3195.44	3207.20	3048.98	2.89	1.81	23.91	67.94	1777.45
43 Media(44)	3994.44	+0.7	3964.86	3980.68	3974.55	4070.06	2.45	1.94	26.32	67.72	1486.89
44 Retailers, Food(15)	2428.15	+0.5	2416.20	2399.73	2407.45	1943.25	3.40	2.27	16.22	45.79	1616.53
45 Retailers, General(53)	2209.40	+1.1	2185.86	2144.36	2119.49	2039.35	3.22	2.03	19.06	38.88	1314.92
47 Breweries, Pubs & Rest.(22)	3440.03	+1.3	3396.53	3324.28	3341.33	3082.89	3.30	2.29	16.64	48.77	1713.40
48 Support Services(55)	3007.18	-0.9	3034.76	3039.19	3026.95	2382.96	1.71	2.54	28.82	27.39	1959.55
49 Transport(23)	2931.24	+1.2	2897.16	2885.00	2886.46	2345.72	3.40	1.35	27.18	59.42	1279.88
60 UTILITIES(31)	3102.60	+0.6	3084.75	3061.63	3013.45	2237.04	4.55	1.50	18.37	51.86	1433.11
62 Electricity(9)	3495.05	+1.5	3441.99	3423.09	3383.91	2347.37	5.08	2.01	12.22	92.77	1974.75
64 Gas Distribution(2)	2176.82	+0.7	2161.68	2089.15	2080.93	1241.35	6.60	‡	‡	84.50	1232.52
66 Telecommunications(8)	2404.49	-0.3	2412.56	2418.78	2362.78	1905.37	3.69	1.68	20.21	10.90	1140.50
68 Water(12)	2994.12	+1.7	2942.71	2898.35	2852.82	2127.47	5.50	2.27	10.01	91.57	1793.36
69 NON-FINANCIALS(673)	2323.05	+0.9	2303.03	2291.31	2267.59	1944.31	3.50	1.83	19.47	42.90	1846.67
70 FINANCIALS(106)	4611.82	+2.0	4520.17	4447.92	4409.79	2880.74	3.04	2.39	17.21	90.50	2082.76
71 Banks, Retail(10)	7210.01	+2.6	7024.67	6963.32	6796.36	4046.24	2.71	2.61	17.66	128.43	2487.64
73 Insurance(18)	1744.23	+0.8	1730.63	1729.64	1711.88	1394.42	4.90	2.62	9.74	56.06	1394.49
74 Life Assurance(7)	4842.49	+0.2	4833.57	4824.72	4786.98	3449.23	3.62	1.98	17.66	121.00	2116.21
77 Other Financial(28)	3276.31	+0.9	3246.95	3248.56	3253.71	2479.34	3.22	1.95	19.90	63.39	1953.58
79 Property(44)	2061.68	+1.1	2038.50	2033.16	2020.18	1500.40	3.13	1.33	30.12	31.81	1324.46
80 INVESTMENT TRUSTS(127)	3486.82	+1.0	3452.73	3443.80	3432.70	3042.61	2.17	1.17	49.31	48.24	1251.16
89 FTSE All-Share(906)	2316.03	+1.1	2289.81	2272.48	2250.41	1832.41	3.35	1.94	19.23	42.85	2050.23
105 FTSE All-Share ex IT(781)	2317.02	+1.2	2290.67	2272.96	2250.40	–	3.39	1.96	18.86	11.92	1055.07
FTSE Fledgling	1250.01	-0.1	1250.94	1252.51	1252.38	1207.73	3.23	0.85	45.47	22.88	1353.83
FTSE Fledgling ex IT	1249.33	-0.2	1251.22	1252.54	1252.44	1222.19	3.60	0.83	41.86	22.96	1354.90
FTSE AIM	1052.7	+0.1	1051.9	1053.7	1051.5	–	1.06	1.00	80.00†	4.23	965.32

■ **Hourly movements**

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4909.6	4926.0	4939.2	4938.2	4958.0	4959.3	4969.2	4986.0	4967.1	4991.8	4909.6
FTSE 250	4454.9	4464.4	4470.4	4471.8	4474.1	4476.6	4478.5	4481.7	4486.7	4487.6	4454.9
FTSE 350	2349.3	2356.6	2362.3	2361.3	2370.0	2370.8	2374.8	2382.4	2374.8	2384.2	2349.3
FTSE SmallCap	2200.73	2201.42	2202.54	2202.44	2202.48	2202.56	2202.46	2203.27	2203.85	2203.97	2200.73
FTSE All-Share	2293.47	2300.19	2305.51	2304.57	2312.52	2313.23	2316.86	2323.93	2316.98	2325.55	2293.47

Time of FTSE 100 Day's high: 3:26 PM Day's low: 8:30 AM. FTSE 100 1997 High: 4984.2 (16/07/97) Low: 4056.6 (10/01/97)
Time of FTSE All-Share Day's high: 3:26 PM Day's low: 8:30 AM. FTSE All-Share 1997 High: 2316.00 (16/07/97) Low: 1980.78 (02/01/97)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative. Deletion: Azlan (48) & (FTSE SmallCap); Atlas Converting (26) & (FTSE SmallCap).

FTSE INTERNATIONAL

TRADING VOLUME

■ **Major Stocks Yesterday**

	Vol. 000s	Closing price	Day's change
3i†	2,800	489	-2½
AMVESCAP	1,500	383½	+11
ASDA Group†	6,500	144	+¼
Abbey National†	4,900	879½	+23
Airtours	289	1232½	+7½
Albert Fisher	285	43½	-¼
Alliance & Leicester†	4,100	627½	+8
Allied Domecq†	2,400	438½	+½
Anglian Water	1,100	791	+9
Argos	793	634	+11½
Arjo Wiggins	1,100	167½	+2
Assoc. Brit. Foods†	1,500	546	+3
Assoc. Brit. Ports	780	259½	
BAA†	3,600	599½	+9
BAT Inds.†	9,300	546½	-½
BBA	889	348½	+2½
BICC	1,100	178	+½
BOC†	829	1094½	+32
BG†	11,800	242½	+1
BP†	6,800	808½	+12
BPB	3,700	304½	+3½
BSkyB†	1,000	452½	+3½
BT†	49,300	445½	-7
BTR†	17,200	199	+1½
Bank of Scotland†	9,000	438	+6½
Barclays†	7,400	1292½	+30
Bass†	3,700	858½	+9½
Blue Circle†	3,800	428½	+8
Booker	3,000	257½	-9½
Boots†	4,800	814½	+5½
Britannic	582	802½	-11½
Brit. Aerospace†	1,200	1340	
British Airways†	7,000	694	+16½
British Biotech	6,900	183	+15½
British Energy	8,000	165½	+3½
British Land†	2,900	654½	+10½
British Steel†	15,500	149½	-1¼
Burmah Castrol†	868	1011	+12½
Burton	8,000	133¼	+6¼
Cable & Wire†	4,400	594½	-2
Cadbury Schweppes†	1,900	581½	+½
Caradon	3,500	198	
Carlton Comms.†	2,700	508½	-6
Centrica†	17,800	81	+1¼
Coats Viyella	2,800	121	
Comm. Union†	4,000	680½	-18
Compass	1,500	627½	+13
Cookson	4,500	201½	-3
Courtaulds	1,700	313	+2
Dalgety	1,400	294½	
De La Rue	1,600	324½	-15½
Dixons†	4,300	585	+1½
EMAP	910	751	+3½
EMI†	2,100	1095	-4
Electrocomps	521	443½	+5
Energy Group†	2,200	650½	+1
Enterprise Oil†	2,700	710	+13½
FKI	1,200	155	+2
Foreign & Col. I.T.	3,400	173¼	+6½
Gen. Accident†	755	909½	+7
General Elect.†	9,900	362½	-6
Glaxo Wellcome†	5,500	1400	+15
Glynwed	672	210	-2½
Granada†	2,300	772	+3½
Grand Met.†	9,800	621½	+15½
GUS†	3,100	606½	-16
Greenalls	891	465½	-1
GRE†	3,200	294½	+13
GKN†	778	1026½	+20
Guinness†	6,500	620½	+14½
HSBC (75p shs)†	5,000	2151	+65
Halifax†	9,500	790	+3½
Hammerson	604	469½	+8
Hanson†	2,900	288	+5
Harrisons Crosfield	2,100	114½	-1
Hays†	883	584½	+2
Hillsdown	1,700	175½	+4½
Hyder	179	874½	+8
IMI	1,800	316	
ICI†	6,500	910	+22
Imperial Tobacco†	10,300	369½	+5
Inchcape	2,300	289	-½
Johnson Matthey	2,400	556	+22½
Kingfisher†	1,900	750½	+17
Ladbroke†	5,000	268½	+11½
Land Securities†	1,700	954	+11
Laporte	586	613½	-18
Legal & General†	6,700	436	+1
Lloyds TSB†	10,800	716½	+19
LASMO†	3,500	273	+4
Lonrho	1,200	128	-½
LucasVarity†	7,100	191½	-1
MEPC	735	509½	+1
MFI	17,600	145½	+6½
Marks & Spencer†	8,200	587	+8½
Mercury Asset Mngt	1,300	1272½	-16½
Morrison	[illegible]	[illegible]	[illegible]
NFC	[illegible]	[illegible]	[illegible]
NatWest	[illegible]	[illegible]	[illegible]
National...	[illegible]	[illegible]	[illegible]
National...	[illegible]	[illegible]	[illegible]
Next†	[illegible]	[illegible]	[illegible]
Northern...	[illegible]	[illegible]	[illegible]
Norwich...	[illegible]	[illegible]	[illegible]
Orange†	[illegible]	[illegible]	[illegible]
Pearson	[illegible]	[illegible]	[illegible]
P & O†	[illegible]	[illegible]	[illegible]
Pilkington	[illegible]	[illegible]	[illegible]
PowerGen	[illegible]	[illegible]	[illegible]
Premier...	[illegible]	[illegible]	[illegible]
Provident...	[illegible]	[illegible]	[illegible]
Prudential	[illegible]	[illegible]	[illegible]
REXAM	[illegible]	[illegible]	[illegible]
RMC†	[illegible]	[illegible]	[illegible]
Racal	[illegible]	[illegible]	[illegible]
Railtrack	[illegible]	[illegible]	[illegible]
Rank G...	[illegible]	[illegible]	[illegible]
Reckitt &...	[illegible]	[illegible]	[illegible]
Redland	[illegible]	[illegible]	[illegible]
Reed In...	[illegible]	[illegible]	[illegible]
Rentokil	[illegible]	[illegible]	[illegible]
Reuters	[illegible]	[illegible]	[illegible]
Rio Tinto	[illegible]	[illegible]	[illegible]
Rolls Ro...	[illegible]	[illegible]	[illegible]
Royal &...	[illegible]	[illegible]	[illegible]
Royal B...	[illegible]	[illegible]	[illegible]
Safeway	[illegible]	[illegible]	[illegible]
Sainsbury	[illegible]	[illegible]	[illegible]
Schroders	[illegible]	[illegible]	[illegible]
Scottish...	[illegible]	[illegible]	[illegible]
Scot. H...	[illegible]	[illegible]	[illegible]
Scottish...	[illegible]	[illegible]	[illegible]
Sears	[illegible]	[illegible]	[illegible]
Securicor	[illegible]	[illegible]	[illegible]
Severn T...	[illegible]	[illegible]	[illegible]
Shell Tr...	[illegible]	[illegible]	[illegible]
Siebe†	[illegible]	[illegible]	[illegible]
Slough E...	[illegible]	[illegible]	[illegible]
Smith (W...	[illegible]	[illegible]	[illegible]
Smith &...	[illegible]	[illegible]	[illegible]
SmKl Be...	[illegible]	[illegible]	[illegible]
Smiths I...	[illegible]	[illegible]	[illegible]
Southern...	[illegible]	[illegible]	[illegible]
South W...	[illegible]	[illegible]	[illegible]
Stageco...	[illegible]	[illegible]	[illegible]
Standard...	[illegible]	[illegible]	[illegible]
Storeho...	[illegible]	[illegible]	[illegible]
T&N	[illegible]	[illegible]	[illegible]
TI Group	[illegible]	[illegible]	[illegible]
Tarmac	[illegible]	[illegible]	[illegible]
Tate & L...	[illegible]	[illegible]	[illegible]
TeleWest	[illegible]	[illegible]	[illegible]
Tesco†	[illegible]	[illegible]	[illegible]
Thames...	[illegible]	[illegible]	[illegible]
Thistle H...	[illegible]	[illegible]	[illegible]
Thorn	[illegible]	[illegible]	[illegible]
Tomkins	[illegible]	[illegible]	[illegible]
Unigate	[illegible]	[illegible]	[illegible]
Unilever	[illegible]	[illegible]	[illegible]
United A...	[illegible]	[illegible]	[illegible]
United B...	[illegible]	[illegible]	[illegible]
Utd. New...	[illegible]	[illegible]	[illegible]
United U...	[illegible]	[illegible]	[illegible]
Vodafone	[illegible]	[illegible]	[illegible]
WPP	[illegible]	[illegible]	[illegible]
Wessex...	[illegible]	[illegible]	[illegible]
Whitbread	[illegible]	[illegible]	[illegible]
Williams	[illegible]	[illegible]	[illegible]
Wolseley	[illegible]	[illegible]	[illegible]
Woolwich	[illegible]	[illegible]	[illegible]
Yorkshire...	[illegible]	[illegible]	[illegible]
Zeneca†	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 index constituent. All trades are rounded. [illegible]

LEGAL NOTICES

In the High Court of Justice No. 003245 of 1997
Chancery Division
Companies Court

IN THE MATTER OF ICCH LIMITED
and
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on the 30th day of June 1997 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the capital of the above named company from £6,750,000 to £150,000.

AND NOTICE IS FURTHER given that the said Petition is directed to be heard before the Registrar of the Companies Court at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the 30th July 1997.

ANY CREDITOR or shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of capital should appear at the time of the hearing in person or by Counsel for the purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

DATED the 17 day of July 1997

Ashurst Morris Crisp
Broadwalk House
5 Appold Street
London
EC2A 2HA
Ref: WHT/N06900182/LI256219.1

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 16 / Sch)

BELGIUM/LUXEMBOURG (Jul 16 / Frs.)

CZECH REP (Jul 16 / Koruna)

DENMARK (Jul 16 / Kr)

FINLAND (Jul 16 / Mka)

FRANCE (Jul 16 / Frs.)

GERMANY (Jul 16 / Dm.)

GREECE (Jul 16 / Drachma)

ITALY (Jul 16 / Lira)

NETHERLANDS (Jul 16 / Fls.)

NORWAY (Jul 16 / Kroner)

POLAND (Jul 16 / Zloty)

PORTUGAL (Jul 16 / Escudo)

SPAIN (Jul 16 / Pta.)

SWEDEN (Jul 16 / Kronor)

SWITZERLAND (Jul 16 / Frs.)

TURKEY (Jul 16 / Tk Lira)

PACIFIC

JAPAN (Jul 16 / Yen)

HONG KONG (Jul 16 / H.K.$)

INDONESIA (Jul 16 / Rupiah)

MALAYSIA (Jul 16 / MYR)

NEW ZEALAND (Jul 16 / NZ $)

SINGAPORE (Jul 16 / S$)

AUSTRALIA (Jul 16 / Aust$)

SOUTH KOREA (Jul 16 / Won)

TAIWAN (Jul 16 / TW $)

THAILAND (Jul 16 / Baht)

AFRICA

SOUTH AFRICA (Jul 16 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jul 16 / Can $)
4 pm close

MONTREAL (Jul 16 / Can $)
4 pm close

Prices supplied by Extel, part of FT Information

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	Jul 16	Jul 15	Jul 14	1997 High	1997 Low
Argentina					
General(29/12/77)	(u)	23076.25	23644.85	23654.12 11/7	9.00 9/7
Australia					
All Ordinaries(1/1/80)	2646.4	2637.6	2673.0	2745.90 2/7	2362.20 1/4
All Mining(1/1/80)	843.4	840.8	845.2	987.18 24/2	831.10 8/7
Austria					
Credit Aktien(30/12/84)	441.34	438.42	438.57	441.86 9/7	374.40 9/1
Traded Index(2/1/91)	1406.34	1390.14	1393.90	1406.34 16/7	1130.22 9/1
Belgium					
BEL20(1/1/91)	2531.11	2488.71	2501.32	2531.11 16/7	1871.85 2/1
Brazil					
Bovespa(29/12/83)	(u)	11617.0	12898.0	13617.90 8/7	6855.50 2/1
Canada					
Metals Minls♦(1975)	(u)	5130.26	5048.63	5691.75 10/3	4945.96 11/4
Composite♦(1975)	(u)	6655.90	6630.60	6655.90 15/7	5578.30 14/4
Portfolio§§(4/1/83)	(u)	3365.02	3359.20	3365.02 15/7	2846.02 11/4
Chile					
IGPA Gen¶(31/12/80)	(u)	5716.65	5798.73	5868.71 4/7	4802.42 2/1
Denmark					
CopenhagenSE(3/1/83)	640.63	634.80	632.31	640.63 16/7	470.14 2/1
Finland					
HEX General(28/12/90)	3499.0	3424.40	3417.01	3499.09 16/7	2483.28 2/1
France					
SBF 250(31/12/90)	1948.73	1925.77	(c)	1948.73 16/7	1633.19 2/1
CAC 40(31/12/87)	2988.01	2950.70	(c)	2988.01 16/7	2256.97 2/1
Germany					
FAZ Aktien(31/12/58)	1403.69	1384.48	1386.64	1403.69 16/7	995.21 2/1
Commerzbank(1/12/53)	4133.2	4072.3	4075.7	4133.20 16/7	2875.80 2/1
DAX‡(30/12/87)	4201.24	4121.13	4124.18	4201.24 16/7	2848.77 2/1
Greece					
Athens SE(31/12/80)	1572.87	1580.33	1600.90	1627.38 23/5	884.64 2/1
Hong Kong					
Hang Seng(31/7/64)	15446.02	15487.24	15370.94	15487.24 15/7	12055.17 3/4
India					
BSE Sens.(1979)	4183.42	4221.02	4225.02	4484.89 9/7	3226.24 2/1
Indonesia					
Jakarta Comp.(10/8/82)	723.50	722.30	722.49	740.83 8/7	631.27 15/4
Ireland					
ISEQ Overall(4/1/88)	3573.17	3527.06	3535.13	3573.17 16/7	2725.07 2/1
Italy					
Banca Comm Ital(1972)	888.68	882.27	882.40	888.88 16/7	642.55 2/1
MIB General(2/1/97)	1348.0	1326.0	1326.0	1348.00 16/7	991.00 2/1
Japan					
Nikkei 225(16/5/49)	20358.74	20089.41	20228.72	20681.07 16/6	17303.65 10/1
Nikkei 300(1/10/82)	300.82	295.91	296.43	302.54 26/6	251.84 27/1
Topix(4/1/68)	1544.93	1521.89	1525.14	1560.28 26/6	1320.82 10/4
2nd Section(4/1/68)	1816.55	1815.30	1818.88	1948.25 30/6	1518.50 15/4
Malaysia					
KLSE Comp.(4/4/86)	1004.09	1012.48	1015.50	1271.57 25/2	1004.09 16/7
Mexico					
IPC(Nov 1978)	(u)	4904.35	4777.07	4962.39 10/7	3359.46 2/1
Netherland					
CBS TtlRtnGen(End 83)	1133.3	1111.2	1114.5	1133.30 16/7	730.80 2/1
CBS All ShrEnd 83)	654.8	642.0	644.0	654.80 16/7	429.00 2/1
New Zealand					
Cap. 40(1/7/86)	2477.49	2470.91	2505.32	2520.65 4/7	2287.48 1/4
Norway					
Oslo SE Ind(2/1/83)	2121.54	2098.58	2078.05	2121.54 16/7	1636.03 2/1
Philippines					
Manila Comp(2/1/85)	2587.36	2655.86	2710.73	3447.60 3/2	2498.38 20/5
Portugal					
BVL 30(4/1/93)	3383.71	3347.77	3398.22	3491.18 9/7	2185.57 2/1
Singapore					
SES All-S'pore(2/4/75)	483.93	484.74	485.01	573.03 17/2	479.84 29/4
South Africa					
JSE Gold(28/9/78)	989.2¶	978.3	989.6	1588.10 27/2	903.80 7/7
JSE Ind.(28/9/78)	8938.4¶	8885.7	8842.5	8938.40 16/7	7369.50 2/1
South Korea					
KoreaCmpEx**(4/1/80)	739.72	755.06	764.45	792.29 17/6	611.05 7/1
Spain					
Madrid SE(30/12/85)	625.62	610.79	628.10	628.15 7/7	434.54 2/1
Sweden					
AffarsvardsGen(1/2/37)	3232.2	3185.2	3208.8	3232.20 16/7	2378.50 2/1
Switzerland					
SMI Index(1/7/88)	5927.5	5844.7	5848.8	6012.80 8/7	3822.90 7/1
SPI General(1/6/87)	3730.31	3685.40	3693.59	3768.79 8/7	2606.22 6/1
Taiwan					
WeightedPr.**(30/6/66)	9544.56	9535.98	9603.54	9603.54 14/7	6844.75 6/1
Thailand					
Bangkok SET(30/4/75)	693.66	625.66	611.91	858.97 22/1	464.77 19/6
Turkey					
IMKB Nat 100(1986)	2009.0	2036.0	2043.0	2043.00 14/7	995.00 2/1
WORLD					
MS Capital Intl$(1/1/70)	975.0*	986.6	966.3	975.09 16/7	794.50 14/4
CROSS-BORDER					
Eurotrack 100(26/10/90)	2716.04	2685.09	2687.86	2716.04 16/7	1893.80 2/1
FTSE E 100(26/6/90)	2298.65	2263.49	2260.44	2298.65 16/7	1582.09 2/1
HSBC JC Dgn(31/12/89)	(u)	423.17	421.94	429.46 20/1	391.63 29/4
ING Bmgs Emrg(7/1/92)	187.86	192.50†	194.43	198.81 9/7	159.74 3/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (MATIF/MONEP) (200 x Index)							
Jul	2975.0	2999.0	+41.0	3009.0	2975.0	13,196	30,007
Aug	2984.0	3007.0	+41.0	3010.5	2984.0	262	2,824
DAX							
Sep	4178.0	4247.0	+86.0	4261.5	4174.5	26,151	88,285
Dec	4222.0	4278.5	+87.5	4291.0	4218.0	345	1,945
OMX							
Jul	2588.00	2630.00	+54.00	2641.00	2588.00	6,452	22,759
Aug	2597.50	2639.50	+54.25	2649.00	2597.75	2,415	4,691
SOFFEX							
Jul	5889.1	5921.5	+75.5	5923.0	5883.0	8,937	14,083
Aug	5896.0	5928.0	+82.0	5928.0	5892.0	4,961	6,558

** Sat July 12: Taiwan Weighted Price 9501.08; Korea-Comp Ex 767.27. Base values of all indices are 100 except Australia All Ord and Mining – 500; Austria Traded, BEL20, HEX-Gen., MIB Gen., BVL30, SBF250, CAC40, SPI, Euro Top-100, ISEQ Overall, Toronto Comp./Met & Mins, DAX – all 1,000; SMI – 1500; JSE Gold – 255.7; JSE 20-Ind – 264.3; IMKB Nat 100 - 1; NYSE All Common – 50; Stand & Poor's – 10 and Amex Comp – 550. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours Index: Jul 16 – 4228.89 +84.01. † Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation.

US INDICES

Dow Jones	Jul 15	Jul 14	Jul 11	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7975.71	7922.98	7921.82	7975.71 (15/7)	6391.69 (11/4)	7975.71 (15/7/97)	41.22 (8/7/32)
Home Bonds	104.01	103.69	103.99	104.08 (10/7)	101.09 (14/4)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2834.39	2800.75	2819.31	2834.39 (15/7)	2222.07 (2/1)	2834.39 (15/7/97)	13.23 (8/7/32)
Utilities	233.43	232.83	231.85	240.85 (22/1)	209.47 (25/4)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 8037.03 (8001.28) Low 7843.78 (7831.00) (Theoretical♣)
Day's high 7963.14 (7950.88) Low 7879.08 (7880.04) (Actual♣)

Standard and Poors	Jul 15	Jul 14	Jul 11	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	925.76	918.38	916.66	925.76 (15/7)	737.01 (2/1)	925.76 (15/7/97)	4.40 (1/6/32)
Industrials¶	1093.52	1083.55	1079.81	1093.52 (15/7)	885.42 (11/4)	1093.52 (15/7/97)	3.52 (30/6/32)
Financial	103.95	103.69	104.21	105.75 (3/7)	80.75 (2/1)	105.75 (3/7/97)	7.13 (4/8/74)
NYSE Comp.	480.99	478.11	478.12	480.99 (15/7)	389.47 (11/4)	480.99 (15/7/97)	4.54 (25/4/42)
Amex Comp.	634.85	632.63	635.47	635.47 (11/7)	541.20 (28/4)	635.47 (11/7/97)	524.20 (16/7/98)
NASDAQ Cmp	1542.11	1523.88	1502.62	1542.11 (15/7)	1201.00 (2/4)	1542.11 (15/7/97)	54.87 (3/10/74)

■ RATIOS

	Jul 11	Jul 3	Jun 27	Year ago
Dow Jones Ind. Div. Yield	1.63	1.63	1.67	2.26
	Jul 9	**Jul 2**	**Jun 25**	**Year ago**
S & P Ind. Div. yield	1.55	1.58	1.62	2.03
S & P Ind. P/E ratio	24.91	24.75	24.35	21.97

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
CCA Prison	10,078,200	28⅝	+7⅝
Tel Brasil	8,469,200	134⅝	-11⅝
Micron Tech	6,839,600	48⅝	+1⅛
Hewlett Pkd	6,145,200	68⅞	+3¼
Philip Mirrs	6,128,400	42⅞	-⅛
Waste Man	5,974,200	31⅝	-⅝
Office Dept	4,897,600	17⅞	+1
Texas Inst	4,228,300	109⅝	+11⅝
Fannie Mae	4,228,300	42¼	+1
Pepsico	4,193,500	37¼	-⅝

■ TRADING ACTIVITY

⊕ Volume (million)	Jul 15	Jul 14	Jul 11
New York SE	602.892	449.708	503.726
Amex	25.081	21.460	23.188
NASDAQ	740.617	690.333	660.211
NYSE			
Issues Traded	3,414	3,419	3,412
Rises	1,511	1,477	1,730
Falls	1,348	1,379	1,075
Unchanged	555	563	607
New Highs	342	387	411
New Lows	22	18	16

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Sep	931.80	931.65	+4.80	940.70	931.60	65,822	180,491
Dec	946.50	941.00	+4.30	950.30	945.20	218	5,326

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ Nikkei 225							
Sep	20200.0	20430.0	+360.0	20490.0	20150.0	28,743	170,739

Open interest figures for previous day.

■ TOKYO - MOST ACTIVE STOCKS: Wednesday, July 16, 1997

	Stocks Traded	Closing Prices	Change on day
Toko	10.2m	882	+57
Fujitsu	9.6m	1690	+30
NKK Corp	7.9m	217	-4
Hitachi	7.4m	1340	+40
Toshiba Corp	7.3m	750	+20
Toshiba Ceramics	7.0m	1300	+120
Ind Bk of Japan	6.8m	1800	+140
Nippon Steel Cp	6.0m	344	-3
Fujita Corp	5.0m	146	-9
NEC Corp	4.6m	1650	+20

NEW YORK STOCK EXCHANGE PRICES

4 pm close July 16

- A -

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

[illegible]

- J -

[illegible]

- K -

[illegible]

- L -

[illegible]

- M -

[illegible]

- N -

[illegible]

- O -

[illegible]

- P - Q -

[illegible]

- R -

[illegible]

- S -

[illegible]

Continued on next page

NYSE PRICES

4 pm close July 16

Continued from previous page

[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. rls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

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AMEX PRICES

4 pm close July 16

[illegible]

NASDAQ NATIONAL MARKET

4 pm close July 16

[illegible]

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Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$3.125		0	8.25	3	Lernout & Hauspie	US$29.25	-0.75	5500	30	25
Artwork Systems	US$9.5	+0.125	20140	11.125	9.375	Mercer Int'l	US$9.375	-0.125	0	11.75	8.125
Chemunex	FFr15		7000	18	14	NTL	US$23.75	+0.125	1000	25.125	23.375
Dr Solomon's ADS	US$28.25	+0.375	8032	28.375	16.875	PixTech	US$3.875		0	8.125	3.875
Esprit Telecom ADS	US$8	+0.125	2250	12.25	5.375	Schoeller-Bleckmann	Sch985		33998	1020	900
Innogenetics	US$10.625	+0.125	532926	12.75	10.375	Topcall Int'l	Sch3275	+72	37570	3278	3065

Prices for 16/7/97. Please note that mid prices are now used to calculate highs and lows.
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FINANCIAL TIMES Thursday July 17 1997

Dow breaks through 8,000 point barrier

AMERICAS

Wall Street extended its record setting run at midsession as the Dow Jones Industrial Average broke through the 8,000 level for the first time and the Nasdaq Composite index headed for its 10th record-breaking close, *writes John Labate in New York.*

By early afternoon, the Dow stood 44.60 higher at 8,020.31. The Standard & Poor's 500 index gained 8.27 to 934.03 while the Nasdaq composite index gained 26.03 or nearly 1.7 per cent at 1,568.14.

Helping to propel stocks higher were low-inflationary reports on consumer prices and industrial production, which set off an early afternoon rally in the Treasury market, where bond prices were sharply higher.

"Capacity is growing as fast as output, suggesting there is no inflation building in industry," said Mr Kevin Logan, senior market economist at Dresdner Kleinwort Benson in New York.

Second-quarter earnings reports also sparked buying, with semiconductor chip maker Intel rising $5⅜ or more than 6 per cent to $86 on an earnings release. The expectation of today's earnings report by Microsoft was enough to send the company's shares up $3⅛ to $146¾.

Record-breaking stock indices have become something of a regular event on Wall Street. The Dow reached the 7,000 level on February 14, having broken through 6,000 points just four months earlier.

"The pace since April has been extraordinary," said Mr David Shulman, chief equity strategist at Salomon Brothers. The Dow had risen more than 25 per cent since April and was up 50 per cent from a year ago, he said.

Major gainers in the Dow included Boeing, up $2⅛ at $60⅞, and General Electric, which rose $2 at $74⅛. But Eastman Kodak plunged $7⅛ or more than 10 per cent at $69⅜ after reporting earnings below expectations.

TORONTO continued to set fresh records in early trading after the latest inflation data out of the US sparked renewed talk of imminent interest rate cuts and led to a strong revival among bank shares. At noon, the 300 composite index was up 69.77 at 6,725.70.

Tech stocks showed early pace but the most impressive performances were found among banks.

SAO PAULO rallied strongly. After a shakeout of more than 15 per cent in four trading sessions, there were clear signs of bargain hunting, according to dealers. "Wall Street's given us a boost, but the forex markets have been a lot steadier. It looks as if the currency squall could be about to blow over," said one broker. At midsession, the Bovespa index was up 433 or 3.7 per cent at 12,050.

SANTIAGO ended with a midsession gain on the IPSA index of 1.54 or 1.2 per cent at 132.79.

CARACAS stayed weak with the IBC index adding to Tuesday's setback with a midsession decline of 103.21 to 9,159.86.

SOUTH AFRICA

Another record close for industrials plus strong demand for selected financials helped push Johannesburg's all-share index ahead by 32.1 to 7,422.8.

The industrial index advanced 30.7 to 8,936.4 to extend its rally to more than 2 per cent in five straight days. Golds stayed weak with the index dipping 7.1 to 969.3 on a renewed wobble for bullion.

Dollar strength takes bourses higher

EUROPE

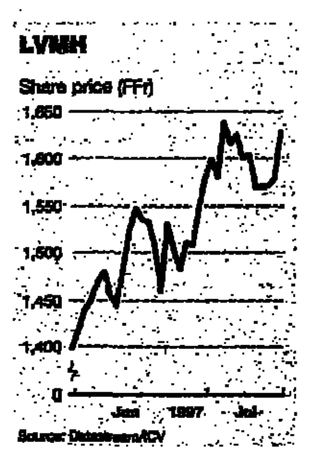
The strength of the dollar and Wall Street's first ever foray through the 8,000-point level early in the session took a number of European bourses further into record territory.

FRANKFURT climbed another 2 per cent. The Ibis-indicated Dax index closed up 84.01 to 4,223.69, breaching the 4,200-point level for the first time as banks and chemical stocks in particular found favour.

SAP, the computer software group, jumped DM11.20 to DM426.50 on rising expectations for second-quarter results due on July 24. Analysts noted strong demand from investors in the US, where the high technology sector has rallied strongly in the last fortnight.

Karstadt roared DM47.40 to DM688.50 on restructuring hopes and making up for ground lost on worries that the stock might be omitted from the Dax.

Volkswagen lost DM8.50 to DM1,465.50 after its recent strong run. Paribas reaffirmed its buy recommendation and forecast that the shares would sharply outperform the Dax. The French bank said that while the VW shares could no longer be regarded as cheap, the positive momentum on sales, costs and currencies should enable the stock to perform further in the coming year.



Source: Datastream/ICV

PARIS continued to climb and the CAC 40, which came within an intra-day whisker of breaching the 3,000 level, ended 37.31 ahead at a record 2,968.01.

LVMH shot forward as investors reacted positively to press reports of the group's proposals for a drinks deal with Grand Metropolitan and Guinness. The shares rose FFr49 to FFr1,628 for a gain of 12 per cent since mid-June when Mr Bernard Arnault, LVMH chairman, first intervened in the GrandMet-Guinness merger plan.

Valeo and SGS Thomson were strong ahead of results statements. The former, which put out interims late yesterday, jumped FFr11.10 to FFr412.10 while SGS gained FFr21 to FFr561 in advance of today's half-year earnings. AGF rose FFr6.20 to FFr205.8 after a Goldman Sachs upgrade.

Thomson CSF ran into profit-taking in the final hour of trading. Up 2.5 per cent at one stage, following news that the government planned to relinquish control of company by reducing the state stake to less than 50 per cent, the stock ended off FFr1.90 at FFr161.60.

AMSTERDAM notched up another record, adding 16.09 to 965.25 on the AEX index. There was said to be steady buying of the cash market by squeezed options traders ahead of tomorrow's options expiries.

Philips, buoyed by the strength of US tech stocks, added Fl 6.80 to Fl 157.80. Royal Dutch gained Fl 3.80 to Fl 112.30. ABN Amro was again the most active counter, ending all-square at Fl 46 after a tigerish two-way tussle had hoisted volume to 10m shares.

Heineken found itself out of step. Worries about flat earnings reasserted themselves and the shares fell Fl 7 or 2.1 per cent to Fl 328.

ZURICH rebounded 1.4 per cent after a day in which derivatives transactions made for volatile trading. The SMI rose 82.8 to 5,927.5.

Nestlé rebounded after its recent weakness, closing SFr17 higher at SFr1,968 ahead of half-year sales figures which were expected today.

Roche continued to benefit from Tuesday's sales figures, which came in at the top end of expectations. The certificates added SFr385 at SFr14,810. Novartis registered shares underperformed the market, with a rise of SFr24 to SFr2,441.

A strong performance in the banking sector was attributed to a technical rebound and a positive Merrill Lynch study. UBS bearers climbed SFr21 to SFr1,700 and CS Group was SFr4 higher at SFr206. SBC jumped SFr8 to SFr418 on the view that its alliance in the Japanese market with LTCB would prove favourable. Swiss Re was the best performer among insurers with a SFr50 rise to SFr2,180.

Sulzer rebounded from recent lows, with a rise of SFr17 to SFr1,227. Sulzer Medica, which was floated on Monday, rose SFr18.50 to SFr434.50 as the chief executive said the company would not wait long before making acquisitions in its core business of orthopaedics and cardiovascular equipment.

MILAN was sharply higher, led by insurance stocks. The Comit index rose 14.41 to 896.63 while the real-time Mibtel index added 277 to a fourth consecutive record high of 14,331. Generali jumped L1,951 to L35,786 after forecasting higher premiums and returns on equity. Ambroveneto fell L113 to L7,944 after its chairman damped down speculation of a public offer.

STOCKHOLM and HELSINKI both pushed to all-time peaks. A SKr12 surge to SKr340.50 at Ericsson following inflated coverage of the shares by Salomon Brothers underpinned the Swedish market. Helsinki was buoyed by a FM5.80 rise to FM430 at Nokia and another strong session for Rasio, which jumped to FM380 before settling FM52 higher at FM560. The shares stood at FM360 at Monday's close, ahead of the breakthrough US deal.

Written and edited by Michael Morgan, Jeffrey Brown and Robert Anderson

FTSE Actuaries Share Indices

THE EUROPEAN SERIES

Jul 16 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2703.78	2702.89	2702.60	2703.99	2705.93	2710.44	2713.63	2718.04
FTSE Eurotrack 200	2704.11	2698.00	2698.68	2703.13	2702.82	2710.09	2717.56	2716.43

	Jul 15	Jul 14	Jul 11	Jul 10	Jul 9
FTSE Eurotrack 100	2695.03	2687.86	2657.44	2648.24	2680.53
FTSE Eurotrack 200	2678.73	2673.52	2642.15	2623.31	2642.65

Base value 1000 (26/10/90) High/day: 100 – 2718.04 200 – 2719.74 Low/day: 100 – 2700.44 200 – 2697.41 † Partial.

Mexico becomes regional star

Mexican stocks have been the region's star performer this month as economic fundamentals improved and mid-term polls seemed to provide political stability, *writes Robert Anderson.*

The market peaked on July 10, up 45 per cent since the start of the year but has since eased 3 per cent on profit-taking. Having lagged behind Brazil earlier in the year, Mexico seems now to be regarded as a bolthole for investors worried about a possible devaluation of the real.

Mid-term polls on July 6 were well received by international investors even though the incumbent PRI party lost its majority in Congress for the first time in 70 years, and a leftwinger was elected as the mayor of the capital. Foreign & Colonial Emerging Markets believes that the "more balanced power base ... bodes well for continuity and moderation." The conduct and turnout of the polls were welcomed in particular as they "confirmed a clear trend towards democracy". Ms Veronica Berger-Collins at F&C said: "A lot of money came in just before and after the election".

After a weak first quarter, second-quarter prospects are looking promising. Bear Stearns expects corporate earnings growth of 18.7 per cent for the full year, and a PE of 13.5 suggests the market is neither overvalued nor cheap.

The economic spotlight has switched from manufacturers and exporters, hit by the strong peso, but consumer spending is finally recovering without triggering inflation. In April retail sales rose 6.6 per cent year on year, helped by rising real wages and increased employment.

The growth in consumption is good news for the stock market. Bear Stearns picks food and beverage stocks and retailers as likely to benefit most. F&C believes banks might be worth a long-term bet.

Emerging markets: IFC weekly investable price indices

Market	No. of stocks	Dollar terms: July 11 1997	Dollar terms: % Change over week	Dollar terms: % Change on Dec '96	Local currency terms: July 11 1997	Local currency terms: % Change over week	Local currency terms: % Change on Dec '96
Latin America	(247)	781.92	+1.2	+45.3			
Argentina	(30)	1,204.91	+1.9	+26.8	739,009.55	+2.0	+26.7
Brazil	(68)	645.83	–0.7	+62.9	2,609.61	–0.4	+69.4
Chile	(46)	823.18	–1.0	+32.7	1,371.53	–1.1	+30.1
Colombia	(14)	838.97	+1.0	+32.5	1,632.53	+0.7	+44.7
Mexico	(83)	749.49	+5.2	+41.5	2,535.72	+3.7	+41.1
Peru	(17)	264.18	+0.0	+34.3	+427.68	–0.1	+37.0
Venezuela	(9)	1,063.39	–0.2	+46.1	11,947.65	–0.2	+49.8
Asia	(708)	227.05	–3.3	–6.6			
China	(27)	78.52	–1.4	+5.5	82.17	–1.4	+6.4
South Korea	(156)	85.27	–3.7	+10.4	99.75	–3.4	+16.2
Philippines	(42)	214.07	–13.4	–27.1	310.23	–1.6	–16.8
Taiwan, China	(90)	194.86	+2.0	+27.1	204.09	+2.1	+29.0
India	(77)	108.10	+0.9	+37.2	137.06	+0.7	+36.8
Indonesia	(49)	132.98	–3.4	+4.2	176.80	–2.8	+7.9
Malaysia	(148)	273.09	–4.5	–18.9	252.50	–5.3	–19.5
Pakistan	(28)	270.66	+6.5	+38.3	499.36	+6.7	+39.7
Sri Lanka	(5)	144.60	+2.3	+52.1	184.77	+2.4	+57.0
Thailand	(87)	142.48	–9.1	–35.6	170.86	–5.3	–24.2
Euro/Mid East	(266)	164.03	+0.2	+22.2			
Czech Rep	(7)	55.64	–7.8	–20.7	62.18	–4.5	–2.1
Egypt	(16)	95.83	–0.7	–	95.63	–0.8	–
Greece	(54)	357.96	+5.0	+47.7	673.98	+5.9	+66.4
Hungary	(12)	289.07	–1.9	+46.9	660.99	–1.0	+72.7
Israel	(40)	128.36	+1.9	+28.4	140.73	+1.8	+40.7
Jordan	(7)	202.65	+0.6	+8.5	302.42	+0.6	+8.4
Morocco	(5)	121.53	–0.2	–	127.79	+0.5	–
Poland	(31)	667.54	+0.4	–6.6	1,400.06	+1.6	+6.2
Portugal	(29)	198.77	+1.0	+36.0	243.75	+1.9	+56.3
Russia	(15)	171.30	–2.7	–	176.00	–2.9	–
Slovakia	(5)	92.81	+0.2	–	96.89	+0.8	–
South Africa	(63)	234.42	–1.0	+12.4	220.25	–0.5	+9.3
Turkey	(58)	240.01	+2.8	+61.4	17,155.48	+4.1	+125.1
Zimbabwe	(5)	598.42	–0.1	+26.4	1,003.80	–0.2	+33.0
Composite	(1222)	343.74	–0.7	+16.5			

Indices are calculated at end-week: weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Bank deal aids 1.4% Nikkei rebound

ASIA PACIFIC

Tokyo rebounded sharply as the dollar climbed back to Y115 and bank shares responded positively to news of the tie-up between Long-Term Credit Bank of Japan and Swiss Bank Corporation, *writes Gwen Robinson.*

The Nikkei 225 average climbed 289.33 or 1.4 per cent to 20,358.74 after moving between 20,139.31 and 20,435.64.

Investors were encouraged by New York's overnight record and the strong performance of high-tech stocks. The dollar's rise against the yen helped blue chip exporters and extended buying momentum to some domestic demand-driven stocks, which revived after being heavily sold in recent sessions.

Volume swelled from 390m shares to an estimated 517m. Advances led declines 635 to 450 with 154 unchanged. The Topix index of all first-section stocks gained 23.04 to 1,544.93 and the capital-weighted Nikkei 300 was up 4.91 at 300.82.

In London, the ISE/Nikkei 50 index rose 8.96 to 1,685.20.

High-tech and electrical stocks were the day's winners. Sony surged Y400 to a record high of Y10,500. Advantest climbed Y400 to Y10,300, Tokyo Electron Y560 to Y7,210 and Fujitsu Y30 to Y1,690.

Banks rose as investors welcomed news of LTCB's agreement with SBC to form a global strategic alliance. Analysts said the tie-up generated expectations of further alliances between Japanese and foreign financial companies ahead of the government's planned "big bang" financial reforms.

LTCB remained bid-only through the day following a morning rush of buy orders, before fetching the day's first quotation of Y507 at the close with a maximum allowable gain of Y80. Industrial Bank of Japan rose Y140 to Y1,800 and Nippon Credit Bank Y9 to Y237.

In Osaka, the OSE average rose 216.32 to 21,255.56 and volume edged up to 20.5m shares.

BANGKOK rallied strongly as talk of a combined Japanese and IMF support package gained ground. The SET index rose 38.00 or 6.1 per cent to 663.66 to extend its rally since the baht was freely floated in mid-June to almost 200 points.

Talk of an economic support package arose out of a meeting planned for later this week between the Thai finance minister and central bank governor with their Japanese counterparts.

Foreign investors were said to be heavy buyers of leading stocks. Bangkok Bank surged Bt16 to Bt181 and Thai Farmers Bank Bt10 to Bt116. Siam Makro jumped Bt6.50 to Bt84.50.

MANILA continued to slide on currency worries with the composite index down 68.50 to 2,587.36 for a two-day fall of 4.6 per cent. "Money market rates are edging lower, but it's a slow process and people are still very uncertain about the outlook for the peso," said one broker.

San Miguel fell 4.50 pesos to 57 pesos, Petron 50 centavos to 5.70 pesos and Manila Electric 7.00 pesos to 142 pesos. Metropolitan Bank fell 5.00 pesos to 545 pesos.

HONG KONG edged lower as concerns about property prices under the government's increased land supply programme outweighed a further sharp rise in HSBC. The Hang Seng index lost 41.22 to 15,446.02 but only after setting an intra-day record of 15,635.52 in early trade. HSBC jumped HK$10 to HK$264, off a record intraday high of HK$269, for a two-day gain of 6 per cent. Analysts attributed the performance to the strong showing of banks in London.

China Incorporated H shares were generally higher on news that Tsingtao Brewery was undergoing a restructuring to boost its stock market image. The shares rocketed HK$1.674 or 42 per cent to HK$5.65.

SEOUL dropped 2 per cent as troubles at the Kia Group rocked financial shares and the car group's six listed companies, which all fell to their limit lows. The composite index lost 15.33 to 739.72.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

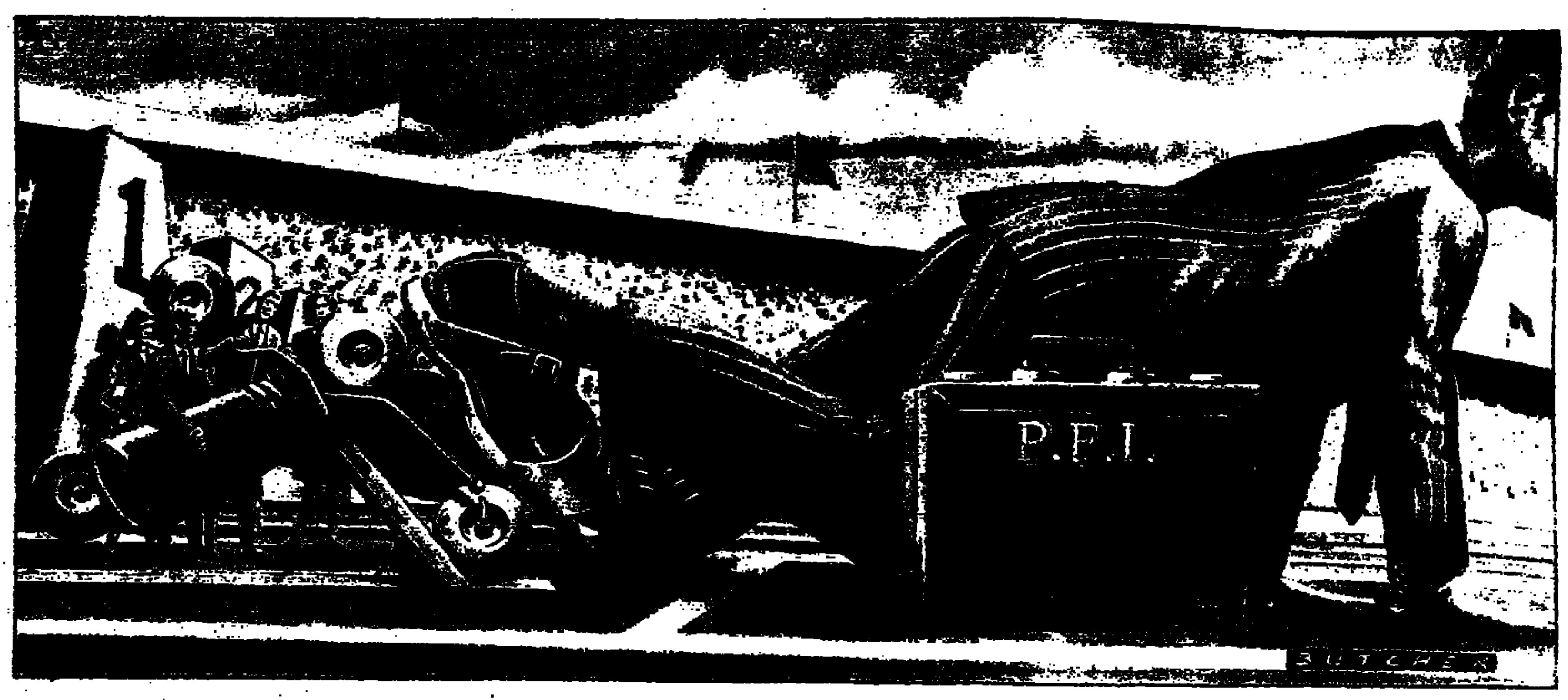
NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	Tue Jul 15 1997: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	Mon Jul 14 1997: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Dollar index: 52 week High	52 week Low	Year ago (approx)
Australia (76)	228.55	–1.5	202.36	166.85	213.91	208.43	–1.4	3.73	231.98	203.71	166.87	215.99	209.36	243.87	188.44	194.27
Austria (25)	196.98	–0.7	174.40	143.80	184.36	184.24	–0.1	1.79	198.31	174.14	142.65	184.64	184.52	202.96	174.70	179.89
Belgium (29)	249.76	–1.0	221.14	182.33	233.76	229.00	–0.5	2.99	252.29	221.55	181.48	234.90	230.08	261.11	206.70	206.70
Brazil (30)	278.58	–8.5	246.68	203.37	260.74	554.07	–8.4	1.32	304.38	267.29	218.96	283.40	605.21	322.44	170.26	184.06
Canada (127)	218.33	0.1	193.31	159.39	204.34	216.54	0.2	1.68	218.09	191.51	156.88	203.05	216.08	218.33	154.12	156.47
Denmark (32)	404.34	0.1	358.00	295.18	378.44	377.30	0.7	1.35	404.12	354.87	290.70	376.26	374.86	406.37	303.46	306.41
Finland (28)	300.40	–0.1	265.98	219.30	281.18	335.21	0.4	1.64	300.75	264.10	216.34	280.02	334.02	304.09	186.67	191.24
France (84)	230.07	–0.3	203.70	167.96	215.33	219.40	0.2	2.40	230.87	202.73	166.07	214.95	218.95	237.57	186.94	189.89
Germany (59)	227.22	–0.7	201.18	165.88	212.67	212.67	–0.2	1.33	228.78	200.90	164.57	213.01	213.01	228.78	168.70	171.72
Hong Kong, China (66)	536.51	0.6	475.03	391.67	502.15	533.70	0.6	2.84	533.43	468.42	383.72	496.65	530.69	539.63	407.55	420.09
Indonesia (27)	240.26	–0.1	212.73	175.40	224.87	361.62	–0.2	1.79	240.52	211.21	173.02	223.94	362.24	254.90	183.82	204.94
Ireland (17)	364.93	–1.2	323.10	266.41	341.55	343.23	–0.5	2.80	369.34	324.33	265.68	343.88	344.99	369.35	270.09	274.04
Italy (56)	99.11	–0.1	87.76	72.36	92.77	129.44	0.4	1.91	99.25	87.16	71.40	92.41	128.96	100.23	73.26	76.90
Japan (485)	135.65	–1.7	120.10	99.02	126.96	99.02	–0.2	0.80	137.96	121.15	99.24	128.45	99.24	150.97	107.57	149.28
Malaysia (107)	473.33	–0.2	419.09	345.54	443.02	467.41	–0.4	1.47	474.40	416.58	341.25	441.69	469.10	660.85	473.33	560.57
Mexico (27)	1682.22	–1.9	1489.43	1228.06	1574.47	14503.39	–1.7	1.28	1714.54	1505.59	1233.34	1596.35	14749.27	1736.93	1110.35	1110.35
Netherlands (19)	418.53	–1.1	370.56	305.53	391.72	387.12	–0.6	2.01	423.12	371.56	304.37	393.95	389.35	425.66	279.66	288.53
New Zealand (14)	91.81	–1.8	81.29	67.02	85.93	73.28	–1.8	3.96	93.45	82.06	67.22	87.01	74.59	96.47	79.04	80.02
Norway (41)	316.21	–0.3	279.97	230.84	295.96	323.81	0.7	1.90	317.03	278.39	228.05	295.17	321.60	326.60	248.04	251.70
Philippines (22)	141.62	–1.9	125.39	103.39	132.55	211.74	–1.9	0.99	144.41	126.81	103.88	134.46	215.91	214.07	141.62	211.58
Singapore (42)	377.83	–0.8	334.53	275.83	353.63	250.99	–0.8	1.22	380.74	334.34	273.88	354.48	252.52	448.01	360.08	383.48
South Africa (44)	357.62	0.1	316.64	261.07	334.72	356.04	0.1	2.43	357.29	313.74	257.01	332.66	355.71	370.12	301.49	348.21
Spain (33)	263.41	–2.0	233.22	192.29	246.54	302.63	–1.5	2.19	268.92	236.14	193.44	250.38	307.23	276.05	171.91	174.96
Sweden (49)	507.07	–0.6	448.95	370.17	474.59	585.49	–0.6	1.76	509.97	447.82	366.85	474.82	588.84	509.97	334.35	343.02
Switzerland (33)	318.48	–0.1	281.98	232.50	298.08	291.63	0.1	1.15	318.76	279.93	229.31	296.80	291.39	329.69	231.69	244.59
Thailand (42)	60.25	4.2	53.34	43.98	56.39	70.03	4.2	4.41	57.80	50.76	41.58	53.82	67.19	160.29	47.65	160.29
United Kingdom (213)	320.92	0.0	284.14	234.28	300.37	284.14	0.8	3.54	320.85	281.75	230.80	298.73	281.75	320.92	229.63	232.72
USA (644)	375.15	0.8	332.15	273.87	351.12	375.15	0.8	1.63	372.17	326.81	267.72	346.51	372.17	375.15	254.79	255.96
Americas (828)	342.92	0.8	303.62	250.34	320.96	288.69	0.8	1.63	340.84	299.30	245.18	317.34	286.91	342.92	233.09	234.36
Europe (718)	280.24	–0.4	248.13	204.58	262.29	264.08	0.2	2.43	281.30	247.02	202.35	261.91	263.56	282.11	204.71	208.11
Nordic (150)	428.91	–0.4	379.75	313.11	401.44	433.75	–0.1	1.70	430.55	378.09	309.71	400.87	434.32	430.94	291.45	298.00
Pacific Basin (881)	153.30	–1.4	135.73	111.91	143.48	113.20	–0.2	1.26	155.40	136.46	111.78	144.69	113.47	183.83	127.18	162.10
Euro-Pacific (1599)	206.30	–0.8	182.65	150.60	193.09	189.94	0.0	1.92	207.98	182.61	149.59	193.62	189.92	208.00	173.55	181.16
North America (771)	365.45	0.8	323.57	266.79	342.05	364.56	0.8	1.64	362.68	318.48	260.89	337.67	361.77	365.45	248.65	249.92
Europe Ex. UK (505)	252.03	–0.6	223.14	183.99	235.88	246.28	–0.2	1.80	253.56	222.66	182.39	236.08	246.68	256.23	185.65	189.67
Pacific Ex. Japan (396)	306.80	–0.3	271.64	223.97	287.15	273.33	–0.3	2.73	307.68	270.17	221.31	286.45	274.11	320.65	268.87	280.56
World Ex. US (1827)	210.08	–0.9	185.98	153.35	196.60	176.66	–0.1	1.81	211.87	186.05	152.41	197.26	176.84	211.87	176.94	182.36
World Ex. UK (2258)	257.12	–0.1	227.66	187.71	240.66	228.40	0.3	1.58	257.37	226.00	185.14	239.63	227.81	257.37	199.68	202.18
World Ex. Japan (1986)	327.58	0.2	290.04	239.14	306.60	318.76	0.4	1.97	326.84	287.01	235.11	304.31	317.42	327.58	235.10	235.57
The World Index (2471)	262.61	–0.1	232.51	191.71	245.79	233.66	0.3	1.78	262.83	230.80	189.06	244.71	232.92	262.83	202.32	204.86

PLEASE NOTE: Indicative figures 15/7/97, subject to confirmation.

PRIVATE FINANCE INITIATIVE

The government's blueprint has created a greater sense of optimism about PFI, say **Alan Pike** and **Nicholas Timmins**

New scheme to speed up projects



One of the first proofs that the government did indeed intend to be New Labour was its swift action to revive the private finance initiative.

Within a week of taking office the requirement to test all public sector capital projects for PFI potential was scrapped. In less than two months a new blueprint to drive schemes through had been produced. It replaces the private finance panel and executive with a new Treasury-based taskforce.

Legislation making it clear that both NHS Trusts and local government have the legal powers to sign PFI deals will shortly become law. The number of big NHS hospital projects has been slashed to 14, and a string of other reforms, including streamlined tender documentation, is promised.

Prioritisation has become the watchword. In future, the six to eight-strong Treasury task-force will "road-test" schemes, signing off their commercial viability before they are advertised.

The final corner of the jigsaw was put in place last week when Mr Adrian Montague, 49, co-head of global project finance at Dresdner Kleinwort Benson, was installed as chief executive of the new task force.

The result has been a clearer sense of optimism about PFI than at almost any point in its five-year history. The only reservations from the private sector are a sotto-voce warning that the devil, as always, will be in the detail, and that it is delivery, not declarations of good intent which will finally count.

Of all the changes, the scrapping of universal testing for PFI was the most welcome, along with the plan for the Treasury to give deals its seal of approval at the start of the process rather than at the end. Both look to be sure ways to cut delays and to reduce bid costs.

However, some worries remain. There was a widespread feeling in the private sector that the panel had outlived its usefulness. But there are concerns about the loss of the executive, which had acted as a semi-independent PFI consultancy. The taskforce inside the Treasury will inevitably be subject to greater policy control.

It will also be small consisting of six to eight people. It is still being assembled. The Bates review set it a series of tasks to complete by October which it may be pressed to achieve. Furthermore, will such a small team be able to undertake the pre-approval of all PFI projects, even if it is fewer and better projects they are examining?

Mr Geoffrey Robinson, the Paymaster General, is bullish. He hopes the private sector will release people to the taskforce quickly, "because they are coming to public service. It is not as though they are going to a competitor where employers might seek to delay or frustrate a move". The timetable, "is tight, but we shall keep to it".

And he believes the team will cope with pre-approving projects. "Where something isn't properly ready, they will send it back [to the strengthened departmental teams which are planned] until it is. They won't have to do all the work themselves." The Paymaster General concedes that "it may be difficult to reach the red book totals" of £10.6bn capital spending over the current three years. "But it won't be because we have too much work, it will be because we are not working in as prioritised a manner as we should. That's the key to it. It is concentrating on the deals which are priority and do-able. If you do that you get a lot more done than with a scatter gun which looks at everything but never does anything - which is what we had."

There is also a welcome for the moves to cut bid costs and to vet advisers to ensure that they really do know what are talking about. In the NHS alone, payments to consultants have cost the service £30m while the private sector estimates that its costs have been at least double that. The task force will also consider reducing the maximum number of bidders and the thorny issue of compensation for failed bids - an area where Mr Robinson is decidedly cautious. It is something the government will consider for future schemes, he says, but "there is no commitment". The government does not intend to allow local authorities to compensate contractors if deals are overturned in court.

Many contractors, however, now want to see to what extent the future focus will be confined to bigger projects.

Ms Sheila Beck, of Siemens Business Services and a former member of the Private Finance Panel, emphasises that public sector managers should not regard PFI as the only basis for long-term public-private partnerships. Siemens, for example, is involved in joint venture companies with local authorities where she believes there is much growth potential.

Bankers such as Hambros, along with 4Ps, the body charged with promoting the initiative in local government, are also keen to bundle up school refurbishment projects into deals of perhaps £40m to £50m to tackle the £3.2bn backlog of school backlog maintenance - although others question how easy it will be to do that within a single local authority, let alone across local authority boundaries. However, the £1.3bn for school refurbishment from the windfall tax should help there.

PFI's development is also leading to changes on the corporate side - the creation of companies which specialise in PFI as opposed to consortia assembled for the projects.

At CIBC Wood Gundy, where Mr Douglas Hogg, former chief executive of the private finance unit is now managing director of infrastructure, it is already happening for its waste management projects. BICC has created Balfour Beatty Capital Projects to manage and develop a portfolio which includes three DFBO roads, and the Edinburgh Royal Infirmary, the North Durham hospital and a London Underground power project for each of which it is the preferred bidder.

Such ventures, Mr Hogg argues, will end up as stock market quoted companies bidding for new work and operating much like privatised utilities. Running schools and hospitals will be no different from the privatisation of past national assets such as the utilities, he says. "It is just that schools and hospitals start off as individual assets. They are not businesses in the way water and electricity are. But in five to 10 years' time these assets will emerge as major utilities businesses providing schools and hospitals and roads to the public sector."

If such success is achieved, big issues emerge further down the line. Mr Gordon McKechnie of NatWest Markets, points out that PFI is in some ways the opposite of the pension problem. Instead of one generation having to pay twice as pensions are privatised, PFI means that the present generation is paying neither for the capital investment of the past which it enjoys, nor for today's capital.

As the revenue committed builds, the government of the day's public sector borrowing requirement (PSBR) arithmetic will come under pressure from the cumulative cash payments, Mr McKechnie says. Some tough choices will emerge: raising taxes, charging for currently free services, reducing public sector provision in the areas not covered by contracts, or borrowing.

"The future cash outflows under PFI contracts are analogous to future debt service requirements under the national debt, and, potentially, more onerous since they commit the public sector to procuring a specified service over a long period of time when it may well have changed its views on how or whether to provide certain core services of the welfare state."

PFI is not, therefore, a free lunch. All the more need therefore, Mr McKecknie argues, to select carefully which projects go ahead and monitor the future outflows. "If government does not do that, the financial markets will act in its stead."

At present, that is a cloud on the horizon. For Mr Robinson, getting the schemes moving is what counts. For what started out under the Conservative government as an ideologically sound idea for adding to public sector capital has, for new Labour, become a necessity. Five years after its launch, Mr Robinson says, PFI is now plainly "heavily substitutional" for conventional public capital, and the targets must be achieved.

"It won't be easy," he says, "nothing ever is. But the alternative is that we will be investing at woefully inadequate levels to maintain our services - our schools, transport, prisons, infrastructure and hospitals."

TRANSPORT • by Charles Batchelor

Public-private partnerships on the way

The biggest test of Labour is likely to be its handling of London's Underground

Transport projects seem set to take up a large chunk of Labour's programme of public-private partnerships – just as they dominated the early stages of the previous government's private finance initiative.

The spending backlog which must be made good if Britain's transport infrastructure is to be brought up to date and the scale of the investments needed herald a busy programme over the next few years.

Precisely how the new partnerships will work in the transport field is not yet clear despite the publication last month of the findings of Labour's review of the initiative.

It has proposed 29 changes intended to weed out projects unsuitable for partnerships before any money has been spent on preparing bids and to speed up the process.

But in the run-up to the election Labour said that individual projects would also be expected to fit into a broader transport strategy operating at a national, regional and local level. This is intended to overcome the criticism that previous schemes, particularly the design, build, finance and operate (DBFO) roads initiative, concentrated on projects which could be financed but which did not necessarily fit into overall transport needs.

This raises a new set of issues. Fitting individual projects into a broader transport policy context, including generating the maximum social return from the funds used, suggests that projects which are less viable in purely commercial terms will be developed.

This appears to indicate that a greater injection of public funds will be needed despite Labour's commitment to tight budget constraints.

Mr Jim Dawson, chairman of Gibb, an engineering consultancy which has been involved in 50 private finance schemes around the world, describes this as "a conundrum" which has yet to be solved.

While Labour fashions its public-private partnerships the argument continues over whether the Conservatives' PFI programme delivered value for money.

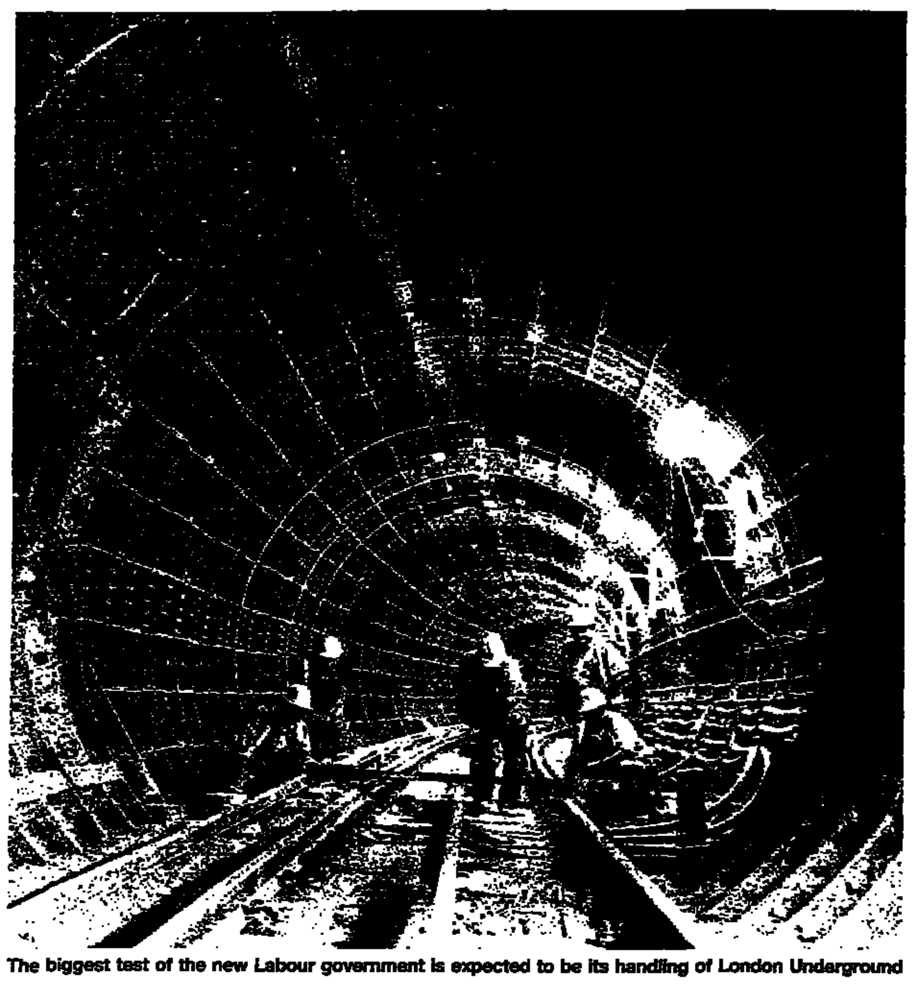
A Highways Agency review of the first eight DBFO schemes concluded that savings of 15 per cent had been made on comparable public sector projects. But Transport 2000, lobbyists for public transport, said it refused to believe these figures, pointing out that the estimates for public sector schemes typically undershot the real outcome by 28 per cent.

An even more weighty critic, the National Audit Office, raised doubts about the whole basis for deciding on PFI schemes. Its report into the £23m Skye bridge, the first of the series into different aspects of the PFI, queried the Scottish Office's failure to compare the bridge with the alternative of improving the facilities of the existing ferry service.

In future, the NAO concluded, departments should compare their proposed PFI deals with real alternatives, not a theoretical publicly funded option.

The biggest test of the new government is expected to be its handling of London Underground.

Mr John Prescott, deputy prime minister and transport secretary, caused a stir when he inadvertently revealed plans including options for the private sector to take a majority stake in the Tube.



The biggest test of the new Labour government is expected to be its handling of London Underground

The Underground has already been active in involving private finance in the modernisation of the Northern Line, in upgrading the computers of its engineering department and in its electricity supply. But effective privatisation went further than many people, including LT's management, had expected.

Roads remain the focus of a great deal of attention as the DBFO framework applied in England is adopted by the Scottish and Welsh Offices and by local authorities around the country.

But the scope of the government's road building programme is now under review. The findings are not expected to be published until early next year but a dozen road schemes, including six DBFO contracts, have been made the subject of an accelerated review, due for completion by the end of this month.

Companies involved in private finance schemes and their bankers are keen for greater certainty in this area. "We just hope they [the government] are committed to it," said Mr Dawson. "We still hear objections on roads as well as on prisons and hospitals. The financial sector doesn't like that."

But if the trunk road financing programme appeared to some people to be running out of steam it is now making its long awaited shift to local authority roads.

Essex County Council launched the first project of this kind with plans to build a parallel road alongside the A130 between Chelmsford and Rayleigh at a cost of £90m.

A problem with many local authority schemes is their small size, which means that contracts and project assessment procedures must be standardised if the cost of putting deals together is to be held down. "Not every project which local authorities want to carry out will be viable," said Ms Ellen Gates, of lawyers Denton Hall.

A different problem confronts the officials putting together a private finance deal for a proposed network of road traffic control centres.

This is an ambitious scheme, tentatively costed at about £30m, to concentrate the policing and management of the trunk road network at three regional centres which would provide sophisticated traffic information to drivers.

The results of a consultation exercise among potential private sector partners are due to be published this month but the project will require an innovative approach, warns Ms Mary Bonar, of lawyers Wilde Sapte. "Assuming they are not to be funded by shadow tolls it is difficult to see how they would charge for providing traffic information."

This need to find projects which can create revenues for the private operator, particularly if a wider range of socially desirable schemes is to be included, may set limits to the government's private finance ambitions.

DEFENCE • by Jonathan Ball

Successful ventures

Eleven projects with a capital value of £360m have been completed

PFI is at an advanced stage in the ministry of defence, with marked progress in support services such as telecommunications and information technology. The initiative is now increasingly spreading to encompass accommodation, buildings and estates, and non-frontline equipment procurement, such as vehicles.

Sixty to 70 projects are under active consideration or in procurement, with a capital value of about £2.5bn. Eleven projects with a value of £360m have been completed, and a number of large ventures are at an advanced stage.

Ms Heather Morley, of the private finance unit at Coopers & Lybrand, says: "Defence is one of the most successful sectors for private finance. The MoD has well co-ordinated central decision-making, unlike the National Health Service for example, where there is inevitable fragmentation given the number of trusts. It has a strong private finance unit which has set priorities and carefully appraised projects before they go into procurement."

The department makes extensive use of external legal and financial consultants to advise on projects. The MoD's private finance unit includes a number of private sector personnel on secondment, and it has launched an internal training programme which involved 600 staff last year. Additional training courses are now held on a monthly basis.

Two significant defence projects nearing completion include the huge £1bn Defence Fixed Telecommunications System (DFTS) and the £500m medium support helicopter project. The £67m (capital value) Joint Services Staff College project is now in the final stages of negotiation. All three are at preferred bidder stage, as is the redevelopment project at the water and sewage plant at Tidworth, where discussions are continuing with Thames Water.

Large building projects have proved particularly attractive to private finance. The £175m refurbishment of the MoD's Main Building in Whitehall, the £35m Chelsea Barracks rationalisation, and the £170m redevelopment of Colchester Garrison are three of the most significant ventures.

Colchester has sought expressions of interest from potential suppliers, Chelsea is likely to issue the invitation to negotiate to shortlisted candidates by the end of August, and Main Building has issued the invitation to submit outline proposals (ISOP) to six bidders.

The six shortlisted consortia for the Main Building project are: an Amey/Kvaerner consortium led by Kvaerner Corporate Development; a British Land consortium, consisting of Pell Frischmann and Royal Bank of Scotland; Horseguards Group, led by Ove Arup & Partners, and including Dresdner Kleinwort Benson and Innisfree; MoDeM consortium, led by the Bucknall Group; a NationsBank-led consortium; and Paladin Property Partnership, led by the Trevor Osborne Property Group.

The Main Building redevelopment is one of the most complex projects. The MoD's headquarters dates from the 1950s, and services such as heating and ventilation are now wasteful and inefficient and in urgent need of replacement.

Mr George Robertson, secretary of state for defence, says: "The MoD's main London headquarters badly needs modernisation. The accommodation is of poor quality, and not up to the standard I would expect my staff to have to work in. We are seeking innovative ideas, not just to redevelop the headquarters itself but also to provide the important support services that keep it running."

Many key MoD personnel and associated support staff require a central London location, and the logistical problem of finding "decant" space for up to 3,000 staff is considerable. This difficulty has been compounded by the rationalisation of the MoD estate, with the recent vacation of a number of London buildings.

Mr Mark Richardson, a partner with Coopers & Lybrand directing the advisory team for the refurbishment, comments: "Detailed proposals and full price submissions from the shortlist are expected in the autumn. A shortlist of about three will then be drawn up. The successful bidder will be required to come up with an innovative solution that satisfies the department's needs and delivers value for money."

Vehicles projects are another important growth area for the MoD. The department categorises vehicles as either "white", those which have no role in a combat situation, or "green", those which may be involved in direct support for the armed forces on operations. The most substantial project in this sector is a £50m contract for the provision of support vehicles for the army in Germany, which was signed with Ryder in February 1997.

Information technology and telecommunications is the final significant area for private finance within the MoD. The £25m Training Administration Financial Management Information System (Tafmis) project is completed, and arrangements for the DFTS should be finalised within the next few months.

The MoD clearly has no significant generic problems with PFI, such as the "ultra vires" issue which is continuing to plague the local authority sector. The need for private finance to fund vital support services is unlikely to diminish given the inevitable financial constraints, and the initiative should continue to progress satisfactorily as defence personnel gain further experience in its operation.

Jonathan Ball writes for the FT's PFI Intelligence Bulletin.

HEALTH • by Nicholas Timmins

A certain feeling of *déjà vu*

The biggest new hospital building programme is about to be launched

Journalists who last month sat listening to what Mr Frank Dobson and Mr Alan Milburn, the health ministers, rather cheekily described as "the biggest new hospital building programme ever" could not escape a certain feeling of *déjà vu*.

It might be the first time Labour ministers had heard themselves relaunching the private finance initiative in the National Health Service. The attending journalists had been there before: notably with Mr Stephen Dorrell, the previous health secretary, who back in November 1995 had promised that PFI hospitals would shortly be rolling off the production line at the rate of one a month.

Labour ministers are now back to a similar pledge. Fourteen schemes have been selected on the promise of their ability to turn themselves into bricks and mortar within 18 months. Can ministers be believed this time? Probably, seems to be the private sector's verdict, given the changes the Labour government has introduced.

Prioritisation of the 43 big projects in the pipeline to reduce them to 14 – including the Norfolk and Norwich and Dartford and Gravesham, the two close to financial close – has been the key.

Mr James Stewart of Hambros, an adviser to the Norfolk and Norwich, and a bidder for Dudley, one of the axed projects, say that while disappointed by that latter decision "we still see this as a positive move, in that the resources available in the industry can now focus on a smaller number of projects with greater confidence.

"And in the medium to longer term, for the next tranche of projects, people will be able to bid with much greater confidence, which will be good for both the public and private sectors."

Last month's decision to cut the projects to 14 has its down side. It might, at £1.8bn, be the biggest hospital building programme ever in cash terms, but it was also the biggest hospital cancellation programme ever. Twenty-three projects worth another £1bn have been told to stop work, while another six in and around London worth more than £500m are on hold pending the autumn outcome of the government's NHS review in London.

The result has been bitter disappointment in Leeds, Sheffield, Hull and elsewhere where projects were thrown back to competing for a share of the ever shrinking conventional NHS capital, or taking their chances in the next wave of PFI projects.

These, however, will be run in a very different way from the process to date. They will first be vetted by the new NHS Capital Prioritisation Advisory Group, there to evaluate large capital spending.

Their judgment will be based first on what Mr Milburn said would be "the only criteria for the future" – the NHS's need for the project.

That means the end to what Mr Milburn dubbed "market-driven" projects which depend only on a trust's ability to strike a deal with the bankers and builders without regard for the health service's strategic needs in the area. Only when the need for a project has been established will its PFI-ability be examined.

This was, Mr Milburn said, "a long overdue return to national strategic planning in the NHS". Such ideas in the past might have caused apoplexy in the private sector. Not so now. The requirement to choose projects that are both needed and will work and then get them built has become critical.

No-one is complaining about this return to the language and concepts of the 1960s and 1970s, although Ms Jennie Price, director of the Majors Contractors Group which represents the UK's 23 biggest builders, says ministers must recognise that once the 14 are up and running more will become possible. "The market capacity to respond will increase," she said.

Ministers will say amen to that. After a 30 per cent cut in NHS capital in real terms in recent years, Mr Milburn is indicating that what limited capital is available to the NHS in the future is likely to be concentrated at least as much on backlog maintenance and refurbishment as new build. With so little public capital available, he said, it is in reality "PFI or bust".

Despite the renewed optimism around the initiative, however, a string of issues remains. Even when the bill clarifying NHS Trusts' powers to sign PFI deals become law, there will still be weeks of work to do on the two front-runners before financial close is finally achieved and the first sods are cut to start building. Much more work remains to be done on the other selected schemes.

Decisions are still needed on precisely what clinical services can be counted in to future PFI deals. Radiology and pathology have been ruled out – although only to the extent that the consultants involved must be employed by the trusts. Other areas, such as clinical biochemistry, are still under study.

Doctors remain worried that the final outcome of PFI will be "a shrunken NHS" as each PFI scheme cuts the number of beds in the new schemes compared to those they are replacing. And other potentially critical issues remain unresolved: for example, the private sector ideally wants contracts to run for 35 years or so, while the NHS traditionally builds its hospitals for a 60-year life. Bringing that figure down might solve some of the affordability problems around the big hospital schemes, and the NHS Executive is examining that issue. But will hospitals built for a shorter life provide the quality of accommodation the NHS wants and still offer good value for money?

LOCAL GOVERNMENT • by Alan Pike

Doubts delay participation

A new Bill is intended to ease worries about the legal powers of councils

Local government has spent more time than most of the so-called PFI players waiting anxiously around the theatre, uncertain whether it was going to be in the cast or in the audience.

Much of the delay to the successful introduction of the initiative has resulted from the same problem as that experienced in the National Health Service – private sector concerns about whether local authorities had sufficient legal powers to enter PFI deals, and who would accept responsibility if any defaulted on them. But there have also been doubts about whether the scale of many potential PFI projects in local government would be big enough to attract private sector interest.

The government has shown its determination to address the first problem with the introduction of the Local Government (Contracts) Bill, which is intended to overcome private sector worries about the legal powers of councils. These doubts were fuelled by High Court decisions last year that councils which exceeded their powers in guaranteeing loan deals could not be forced to repay £17m to Credit Suisse.

Local authorities' powers to enter a wide range of contracts for the provision of assets or services will be confirmed when the bill becomes law. Councils and contractors will be barred from arguing in private legal actions that contracts are unenforceable. Contracts will still be open to challenge in public law – for example by a council's district auditor or an aggrieved council tax payer. But in the event of this leading to contracts being invalidated – which the government believes is unlikely – councils would be empowered to provide their private sector partners with compensation.

4Ps, the Public Private Partnerships Programme set up last year to promote PFI and other forms of partnership in local government, not only survived Mr Malcolm Bates's review but won a flattering endorsement from it. "The 4Ps have developed a good name for themselves through identifying pathfinder projects on which to focus effort and through helping establish an effective policy framework for PFI. They have an important role to play," concluded Mr Bates.

Mr Peter Fanning, until the election an adviser on corporate finance and tax to Labour's Treasury team and formerly a director of NatWest Capital Markets, last month took over as 4Ps chief executive from Mr Paul Bryans. Mr Bryans had been seconded from Charterhouse Bank to set up 4Ps 15 months ago, and has now joined European Capital as a director with responsibility for building up PFI advisory activities.

The bill introduced by the government last month should, believes Mr Fanning, do much to address private sector concerns about entering PFI deals with local authorities. "I believe the bill, combined with indications that the government is prepared to take decisive action to address issues affecting the success of PFI, will create a much better atmosphere for doing deals," he says.

4Ps pathfinder projects are designed to test and develop PFI principles across a range of local government services. They include a scheme in the London Borough of Brent for the private sector to provide a complete street lighting service, including energy supply and replacement and maintenance of stock.

Hereford and Worcester county council is seeking a partner for an innovative long-term approach to waste management, disposal and recycling, and has received bids from Onyx, Focsa and ERI for a contract with a capital value around £250m. Westminster City Council, one of the first local authorities to use PFI for the rebuilding of Pimlico school, has turned to the initiative a second time to provide a nursing and residential care home.

Other pathfinder projects include road schemes, renewing fire and police stations and related facilities, and providing local authorities with new office accommodation. But one of the leading priorities of the coming year will be to successfully launch schools projects. There is a substantial maintenance backlog in schools that councils are looking to PFI to address provided practical problems – notably packaging schemes so that they are big enough to interest the private sector – can be resolved.

PFI is only one of several forms of possible public-private partnership in local government and others – such as joint venture companies – are likely to remain more popular types of collaboration for some services. A study by CDC Publishing last month showed, however, that although few authorities describe themselves as "very enthusiastic supporters of the whole principle" of PFI, 71 per cent of those surveyed were exploring opportunities for using it.

The CDC research suggests that larger, urban authorities are finding it easiest to identify suitable projects. Most of the smaller English district councils interested in PFI would like to use it for schemes with a value of less that £5m. Although not all councils regard small schemes as non-starters – one is seeking a contractor for a £400,000 improvement to a recreation centre, funded by income from the turnstile – many councillors doubt whether the private sector will be interested in such projects.

SCOTLAND • by James Buxton

Run-down schools may generate fresh interest

Scottish support for PFI is increasing as a way of repairing public assets

A recent photograph of Woodlands high school tells it all. It shows a forbidding Victorian building with a low modern block running from it and, filling most of the yard in the foreground, an immense pool of rain-water.

Woodlands is one of five run-down secondary schools near Falkirk in central Scotland which may be salvaged by a PFI scheme. Expressions of interest are soon to be sought for a project to rebuild some of the buildings, demolish others, sell off surplus property, and service and maintain the upgraded properties for 25 years.

The significance of this £60m to £70m project is that it has the strong commitment of the leaders of a Labour council and the keen backing of Mr Brian Wilson, the Scottish education minister.

It demonstrates that Labour in Scottish local government, hitherto wary of PFI, is embracing it as a way of modernising public assets and remedying years of underspending, often forced on it by expenditure capping.

Mr Jeff Thornton, head of Royal Bank of Scotland's public sector finance department, sees it as a harbinger of other large projects to rescue local authority school buildings in towns such as Edinburgh and Stirling.

The new government has re-invigorated the PFI process in Scotland as it has elsewhere in Britain. It has long been said that Scotland was particularly fertile ground for PFI because one ministry, the Scottish Office, handled most functions of government.

But in practice, projects in which PFI was being attempted for the first time hit many of the same problems as elsewhere. By the time the Conservatives left office only three large PFI projects had been launched, as well as a number of minor ones.

Sam Galbraith: broke the logjam holding up hospital projects

The controversial Skye bridge opened in 1995, work started this year on a £130m project to upgrade the last 18 miles of the M6/M74 motorway in southern Scotland and a £45m sewerage scheme for Inverness and Fort William was under way. But large hospital projects were becalmed, just as they were in England.

In late June, Mr Sam Galbraith, the Scottish health minister, broke the logjam holding up hospital projects. Whereas, hitherto, companies and officials had been working on a wide range of schemes, he gave priority to six large projects, cancelled one other and said other schemes would continue, subject to review, but with a lower level of urgency.

Mr Galbraith halted the PFI project to redevelop one of Edinburgh's two teaching hospitals, the Western General. Although a consortium of the Miller Group, Building and Property Facilities Management and Scottish Hydro-Electric had been named preferred bidder for a £110m scheme, the site has buildings of varying ages, functions and conditions, which had already posed difficulties for the contractors. Instead, he authorised the spending by the Scottish Office of £40m on new facilities.

But proponents of the other Edinburgh project, for a £180m replacement for the Royal Infirmary, were told they could go ahead towards completing negotiations, and work on the site may start before the end of the year.

The preferred bidder is Consort, a consortium of BICC, Royal Bank of Scotland and Morrison Construction. Other projects given priority are the Law and Hairmyres hospitals in Lanarkshire. But a scheme for Glasgow Royal Infirmary was downgraded.

The water and sewerage industry was not privatised in Scotland because of the deep unpopularity of the idea. Instead, it was removed from local authority control and put in the hands of three publicly-owned water authorities. The new authorities will have to use PFI schemes to finance the investments required to bring their water and sewerage operations up to standards set by the European Union.

It has taken several years to get projects under way. The first, by North of Scotland Water Authority to provide sewerage treatment at Inverness and Fort William on a design, build, own and operate basis, is now going ahead.

A 25-year contract was won by Catchment, a consortium of United Utilities, the water and electricity group, Morrison Construction, and Bechtel, the US construction group, and funded by Société Générale, the French bank.

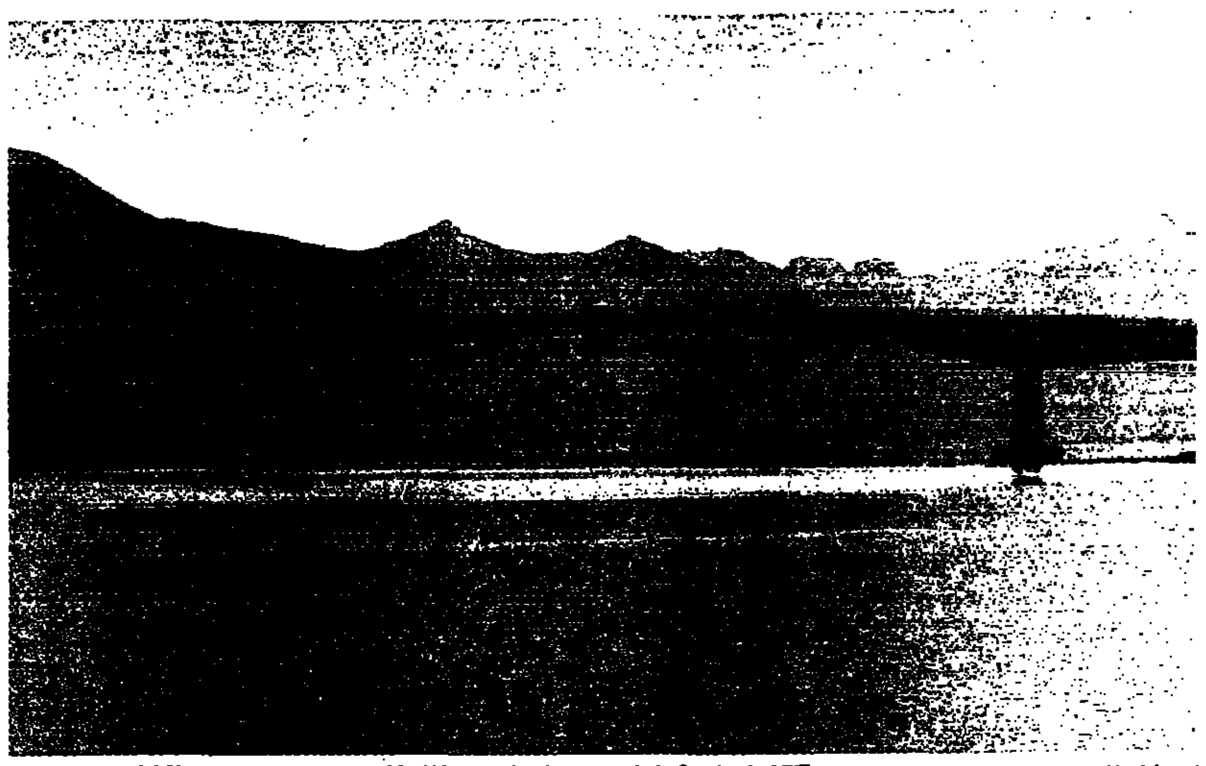
The Scottish Office has identified another 22 sewage treatment contracts, collectively worth £542.3m, as potential PFI projects. East of Scotland Water should soon announce the preferred bidder for the Almond valley trunk sewer and Seafield sludge incineration plant.

West of Scotland Water's Daldowie sewage sludge treatment project is reaching the final offer stage. North of Scotland Water has asked bidders to pre-qualify for the Tay project. "The water authorities are getting their act together on sewerage and making progress," says Mr Michael Martin, head of Morrison Construction's infrastructure development division.

The Scottish Office, like the department of transport in England, is reviewing all trunk roads schemes. That could affect the design, build, finance and operate scheme to complete the M8 Edinburgh-Glasgow motorway in Lanarkshire, for which tenders are due this month.

Recently, Mr David Nash joined the solicitors Shepherd & Wedderburn from the Scottish Office's PFI division, to help the firm on PFI, where, like its rival Dundas & Wilson, it finds itself representing clients on different sides of projects.

He says: "Most of what needs to be known about PFI projects has been collectively learnt across the country. Now people, both in government and the private sector, are beginning to streamline their processes."



The controversial Skye bridge which opened in 1995 was the first example in Scotland of PFI *Picture: Ashley Ashwood*

Powerhouse switches on to PFI projects

When Scottish Power, the Glasgow-based electricity group, won its fraught £1.7bn bid battle for Southern Water, the English utility, it mentioned an added bonus.

The Worthing-based water company would help Scottish Power in its bid to win private finance work in the water industry north of the border.

As Mr Duncan Whyte, the group's executive director in charge of the multi-utility strategy, said: "Southern Water gives us additional expertise, which is useful for these contracts."

Staff are contracted from Southern Water to join the group's 10-strong team working on PFI projects in Glasgow.

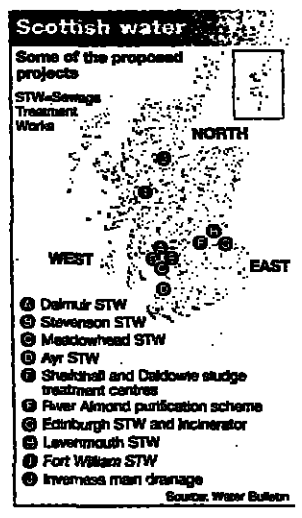
The acquisitive multi-utility has tendered for two PFI projects to improve facilities in waste water treatment works in Scotland and is planning a third. It has also bid for an energy project in Northern Ireland and won the contract to undertake a joint feasibility study for a heating scheme in Glasgow.

Scottish Power first decided two years ago to get involved in PFI projects. It believes that its core skills are particularly well suited for the task. "Managing a large asset base with a big investment programme, this is fundamentally what Scottish Power does," said Mr Fraser McCreadie, the group's PFI business development manager.

This view is shared by several competitors. The UK's two other combined electricity and water groups – United Utilities and Hyder – are both pursuing opportunities in the area. United was part of the winning consortium for Scotland's first PFI project – a 25-year concession to operate and maintain the Fort William and Inverness waste water treatment plants awarded by the North of Scotland Water Authority.

Scottish Power was disappointed that it did not win this project but believes it is a long-term game. The group estimates that PFI in the Scottish water industry will be worth a total of £1bn over the next five years.

Scottish Power believes it has a competitive edge in that it can use the end-product of sewage treatment for energy generation. It has not yet been able to put this theory into practice.



The closest it has come to a win so far has been the joint feasibility study with AHS Emstar, the environmental services group, looking at how to provide affordable warmth for 80,000 homes in Glasgow. Mr Whyte estimates that the total project, if the city council decides to go ahead, could be worth £500m.

The three projects Scottish Power has tendered for so far amount to about £200m. Analysts have estimated that each project is capable of providing returns of between 5 and 10 per cent, making each one worth between £3.5m and £7m in profits. The scale leaves City analysts largely unimpressed. "I have to say that it could be a nice but small little earner unless they sew up lots of projects," said one.

However, Mr McCreadie says, "with the cutback in the public sector borrowing requirement this is likely to be a major source of business for the future and I think you have got to get in on those projects at a ground floor level".

The group welcomes the early noises made about PFI by the new government. After some frustrations the initiative appeared to be gathering momentum before the election and matters now seem to be improving even more. "They [the government] have made proposals which, if implemented, should make a difference and speed things up," said Mr Whyte.

Jane Martinson

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INFORMATION TECHNOLOGY • by Paul Taylor

Service providers accept the risk

IT managers have now begun to experiment with new procurement procedures

Over the past few decades, information technology service suppliers to the public and private sectors have earned an unfortunate reputation for costly errors and project delays. There have been many conspicuous failures and few unblemished successes.

But, as Mr David Scott-Jones, a principal in Coopers & Lybrand's public services practice, noted in a recent article, many industry experts blame the way in which systems are specified and development contracts are drawn up.

Even before the advent of the Public Finance Initiative, some public sector IT managers had begun to experiment with new approaches, including specifying the outputs and service levels required rather than traditional procurement methods which often involved spending months analysing requirements and designing a system to be implemented by someone else.

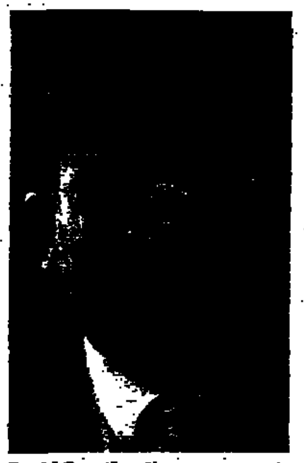
PFI goes one step further by combining the concept of procuring a service rather than a system, with the additional benefit of shifting the bulk of the risk to the service provider.

"Under PFI, the public sector should not retain either the risks or the benefits of ownership of any assets that are developed," argues Mr Scott-Jones. The service provider therefore installs and continues to own all the equipment, replacing it at its own expense when appropriate.

These principles were embodied in the Army's Training Administration and Financial Management Information Service project contract (Tafmis) – a 10-year contract valued at £25m which was awarded to EDS, the US-based computer services group, in August last year.

More that 30 companies originally expressed an interest in some aspect of the Tafmis programme – a number that was whittled down to a shortlist of three who each received the Statement of Service Requirement to bid against. Negotiations with two of the three – the third withdrew – began in January last year.

Mr Scott-Jones says the procurement process adopted ensured that the process was completed very quickly. Among the important points to emerge from the evaluation process were:



David Courtley: the government may be more selective

■ PFI rightly favours the supplier who is prepared to accept those risks they are best able to manage, and "it is important to appreciate the attitude of a supplier toward accepting risk".

■ Both bidders claimed that their charges represented only a proportion of their development costs because they expected to be able to offer similar services elsewhere. Viewing a PFI contract as a "loss leader" was the explanation Andersen Consulting has given to explain why its successful bid for the Contributions Agency national insurance recording system (Nirs2) was so much lower than its rivals.

> There have been many conspicuous failures and few unblemished successes

■ The use of software packages offers advantages in reducing system development risks and in applying "best practice". But it should not be assumed that it always leads to lower prices.

Indeed, Mr Scott-Jones concedes that although it appears that the Army has obtained an excellent service at a good price, "it remains to be seen whether the PFI approach will be superior to the traditional procurement process".

In one area in particular – infrastructure maintenance towards end of a contract – he and other PFI experts admit they have still not found an ideal solution.

In an effort to encourage service providers to keep IT infrastructure up to date and in good condition throughout the life of a contract, most PFI bids have included a "transfer payment" – a percentage of the service supplier's revenues to be paid at the end of the contract if the next service provider is willing to take over the infrastructure.

However, as in the case of the Tafmis negotiations, suppliers normally react by simply increasing their charges to compensate for the retained funds. Effectively they view the transfer payment as a "bonus" which they may be willing to forgo if it proves cheaper to allow the infrastructure to degrade.

In the case of the Tafmis contract, the negotiators decided to drop the transfer payment and instead included a contractual requirement for a full technology "refreshment" at index linked prices.

Such adaptations reflect the fact that PFI agreements in the IT area are still complex and relatively new. "Suppliers are starting to emerge from a period of PFI scepticism," says Mr Scott-Jones.

Similarly PFI suppliers like EDS, which has won two other recent PFI contracts – the Local County Court System contract from the Lord Chancellors Department, and the £53m Oceanics National Air Traffic Services contract in the last nine months – point out that it is still early days.

PFI suppliers like EDS are also watching closely to see what impact the government's review of PFI has. In common with other IT industry executives, Mr David Courtley, managing director of EDS' public sector special business unit, believes the new government will be more selective in deciding which projects to push through the PFI process.

He believes PFI is likely to be reserved for the larger, more complex projects – exactly those that he believes PFI is most suitable for. What is clear however is that PFI is now firmly established as part of the IT procurement landscape.

As Mr Rob Wirszycz, director general of the Computing Services and Software Association, noted recently: "IT projects have been the fastest growing and most numerous PFI projects in government and IT may also form a significant element of other types of PFI projects.

"As the scope of PFI expands to include local government and education, it is vital that the pivotal role of information technology and the unique factors involved with it in procurement situations be recognised. The process definitely has to be refined from an IT perspective."

PROFESSIONAL ADVISERS • by Robert Rice

Critics lay down the law

Advisers have welcomed the Bates review as a way of revitalising PFI

Alan Milburn (left): blamed lawyers for the fact that patients were not getting the hospitals they needed. Geoffrey Robinson (right): received 29 recommendations from Mr Malcolm Bates

Professional advisers have come in for some harsh criticism recently over their role in the PFI process.

Mr Alan Milburn, health minister, blamed lawyers for the fact that patients were not getting the hospitals they needed. The money available for hospital projects was not being used efficiently, he said. "£30m has been paid out by NHS trusts alone on legal fees and advice," he told an audience of PFI contractors and funders.

The Bates review of the PFI also had some hard words for professional advisers.

In his 29 recommendations to Mr Geoffrey Robinson, paymaster general, Mr Malcolm Bates, chairman of Pearl Group, called for an accreditation system to improve the quality and consistency of external advisers, some of whom have proved of "varying ability".

This will involve the new Treasury taskforce checking advisers' credentials and testing their knowledge, commitment and depth of resource.

Mr Bates calls for the taskforce to make projects more cost effective by minimising bid costs. Part of this task will involve standardising and limiting the scope of information required from bidders. Government departments have been given until October to produce model conditions and clauses for their projects as a means of "sharply" reducing legal fees and other costs.

The taskforce has also been asked to consider "establishing ways by which the project manager and the advisers to the project sponsor are remunerated at least in part by success fees."

Although not entirely agreeing with the diagnosis, professional advisers have in general welcomed the Bates review as a means of revitalising PFI.

Mr Jason Fox, a partner of Herbert Smith, the City law firm, who was seconded to the Private Finance Panel in its early days, says the proposals will help to clarify responsibilities and address the principal structural and legal impediments to progress.

The focus on creating expertise within individual government departments and the development of a policy which is responsive to the concerns of the private sector will assist greatly in taking PFI forward, he says. At the moment the shortage of skills and expertise within the public sector means it cannot always be regarded as an equal partner. Dismantling the panel and creating a taskforce more capable of exercising strong central control is also to be welcomed, he says. The biggest problem that has dogged PFI has been a lack of regulation of the flow of projects to market in some sectors.

Roads and prisons projects have been the exception. Allowing only three or four projects to go ahead at any one time has enabled a greater number of parties to compete for fewer projects in these sectors, thereby ensuring their success.

Contrast the health sector where 43 projects are all trying to come to market in a short space of time. "There is no prioritisation, no objective viability testing to ensure projects stack up and make sense, and no possibility of lessons being learned," he says.

Mr Fox also welcomes moves towards standardisation of documents although he believes it will only be practical to produce standard documents within specific sectors.

To an extent it already happens in both the roads and prisons sectors. The documents used for the first PFI prison project at Altcourse were only amended around the edges for the second project at Bridgend.

This is possible with prisons and roads projects because the awarding authority is the same each time – the Highways Agency or the Prison Service. The trick will be to apply the benefits of standardised documents to the more decentralised sectors, such as health and local government, he says.

Ms Heather Morley, a partner in the Coopers & Lybrand PFI unit, rejects the implied criticism in Bates that external advisers are largely responsible for excessive costs thrown away on projects that have failed to take off. In the health sector in particular what affects the costs is that many of the deals were simply not suitable for PFI, she says.

"The best way to reduce bidding costs is to ensure you get the method of procurement right. It's when projects fail that money is wasted," she says.

Coopers believes the main problem with PFI is that it has been used too indiscriminately with too many projects going into procurement without a robust options appraisal or without a good business case. The accountant therefore welcomes the emphasis in Bates on prioritisation.

"The telling phrase in Bates is about PFI being just one method of securing public private partnerships. We have been saying for some time that PFI is not the only way and that you should look at a range of procurement options to ensure PFI is the right route for that project. So this is a big change of message," Ms Morley says.

Many of these sentiments are echoed by Mr Nick Bliss of Freshfields, the City solicitor. Mr Bliss, who worked on the first two Design, Build, Finance and Operate (DBFO) road schemes to be awarded to the private sector under PFI, says PFI in the health sector has been a shambles.

"What should have happened is someone should have said the best deals for the private sector are those where we know there will be a good throughput of patients afterwards, and concentrated on getting those deals through and sorting out some templates for future projects. The amount of money spent on deals with no chance of success is an absolute scandal," he says.

He rejects suggestions, however, that external advisers are largely to blame for the money wasted and excessive costs thrown away.

"I accept for the taxpayer any penny not going on a capital asset or providing a service is wasted. But all PFI deals are astoundingly complex largely because most are financed off-balance sheet. So the transaction costs are always going to be high," he says.

He doubts whether standard form contracts are the answer, either. He points to the electricity industry, where, since privatisation, several private power projects have been financed off-balance sheet.

"By the logic of Bates there should be standard contracts to finance a power station, but there aren't. There will always be differences from project to project which have to be negotiated. So, although it is a good idea to have a resource of negotiated documents, I don't ever think you will be able to pluck a document out of a hat and say 'sign that'," he says.

Mr Bliss also has doubts about the viability of the prior approval proposal put forward by Bates. The biggest problem with PFI has been the total lack of commerciality in the public sector, even within the Treasury, he says.

"What's proposed amounts to a revolution in public sector procurement. It's saying to civil servants you've got to do deals and got to take risks and make decisions and it's against their instincts. So it may be over optimistic to expect projects to be prior-approved."

Mr Brian Pomeroy, of Deloitte & Touche Consulting Group, also has doubts about the prior-approval, or "road testing", of projects by the Treasury taskforce. While it may work for many projects, particularly generic ones, such as hospitals, which will be repeated time and again, Deloitte is concerned that viable projects which seem risky to the public sector may never get off the ground because of the lack of private sector innovation at an early stage.

Mr Pomeroy suggests it would be better to pre-market or market test projects before putting them out to tender. That would allow the private sector to suggest solutions at an early stage without incurring excessive costs, he says.

6 PRIVATE FINANCE INITIATIVE

PFI: the progress to April 1997 (£m)

Transport	
Channel Tunnel Rail Link	3,000
Northern Line Trains	400
8 DBFO roads	563
2nd Severn Crossing	330
Dartford Bridge	150
Heathrow Express	300
Midland Metro	145
Croydon Tramlink	200
Manchester Metrolink	126
CAA OFDPS	30
TOTAL	5,244
Scotland	
Skye Bridge	24
Lothian/Forth Health Bd	5
Northern NHS Trust	6
Inverness/Ft William water	45
M74/M6	130
Other Health	32
TOTAL	242
Home Office	
Bridgenad Prison	80
Fazackerley Prison	80
Lowdham Grange Prison	35
IND: IT	41
IND Gatwick	12
PABX: IT	6
Cookham Wood STC	10
Other minor projects	1½
TOTAL	265½
Trade and Industry	
Resource Accounting	5½
Others	1½
TOTAL	7

Health	
Small projects	101½
TOTAL	101½
Environment	
DLR Extension	200
Waltham Forest HAT	15
TOTAL	215
DfEE	
Greenwich Student Accom	11
WISPER	3
12 separate Sports facilities	30
ESCOM	5
TOTAL	49
Defence	
Helicopter Flying School	118
German White Vehicles	52
NRTA	35
LISA (IT)	30
RAF White Fleet	35
TAFMIS	14
HMS Nelson	20
Material Handling Equipment	27
Others	32
TOTAL	363
Social Security	
NIRS 2	150
BA/POCL	120
TOTAL	270
Customs and Excise	
Subscription Services	-
TOTAL	-
Inland Revenue	
Manchester Accomodation	29
TOTAL	29

National Heritage	
Royal Armouries Musuem	42
B Library Bibliography	22½
Others	5
TOTAL	69½
FCO	
Minerva (IT)	1½
TOTAL	1½
Northern Ireland	
Small deals	4
TOTAL	4
Wales	
Osiris	14
University Hospital	10
TOTAL	24
Summary	
Transport	5,244
Scotland	242
Home Office	265½
Health	101½
Environment	215
DfEE	49
Defence	363
DSS	270
Inland Revenue	29
National Heritage	69½
DTI	7
FCO	1½
Northern Ireland	4
Wales	24
TOTAL	6,885

Source: Private Finance Panel Executive

FINANCE • by George Graham

Outlook brightens as uncertainties fade

Measures taken by the new government have met most of the concerns of banks

After all the doubts and uncertainties that have surrounded Private Finance Initiative projects in recent years, the outlook has suddenly started to clear for lenders and investors.

Measures taken by the new government to resolve difficulties over local government and health projects have met most of the concerns raised by the banking sector, and the more general steps aimed at streamlining PFI processes are also seen as likely to expand the readiness of banks to commit their funds.

"My view is that it has opened up the PFI. I think the PFI, particularly in tie-ups with local government, is about to have its best couple of years in the last 10," said Mr David Fordham, a director of Banque Internationale à Luxembourg in the UK.

Mr David Metter, who runs Innisfree, the PFI investment fund, says that quite apart from specific worries over the involvement of health authorities or local governments in PFI projects, the general climate has improved for investors.

"If you look back two or three years, there was great uncertainty about whether the Labour party would embrace PFI. From a position of great uncertainty, you now have the Labour government very positive about PFI and taking some very helpful practical steps," said Mr Metter.

Banks have been very interested in the PFI in principle. Around 50 banks, ranging from the very largest UK institutions to the London branches of overseas banks, have joined a PFI working group set up by the British Bankers' Association. A survey by the BBA showed that most were "straining at the leash" to fund PFI projects, as soon as they could be satisfied that they were not incurring unacceptably open-ended long-term risks.

The main area of concern for the banks has been the question of *vires* – the worry that the law does not give non-central government bodies explicit powers to enter into PFI contracts, so raising the risk that a court might void a contract, years after it was entered into.

Many foreign banks are still fuming over the House of Lords ruling in the Hammersmith and Fulham case a decade ago that swaps contracts were *ultra vires* for local authorities. Several Japanese and French banks lost large sums on their swaps books, and some senior French bankers still start to splutter at the mere mention of the word "Hammersmith".

When the same issue arose for PFI contracts in cases involving the Allerdale and Waltham Forest councils, many banks were eager not to get caught a second time.

"All we ask is that government provides a sufficient degree of legal certainty that PFI deals will not be declared *ultra vires* by the courts or that, if they are, the contract should not be automatically void," the BBA said in a submission to the government for its review of the PFI process.

Although the government has not produced a comprehensive bill authorising PFI deals across the board, the measures it has introduced for the health sector and for local government have, from the banks' point of view, dealt with the bulk of the problem.

On the health side, the new legislation gives National Health Service trusts explicit powers to enter into PFI deals, and provides for the secretary of state to certify individual deals. That has provided enough comfort to the banks to unblock two large hospital deals, the Norfolk & Norwich and the Dartford & Gravesham, which were at the top of the government's list.

> About 50 banks have joined a PFI working group set up by the British Bankers' Association

For local government, which is where the biggest problems have arisen, it is not so easy for central government to certify projects without encroaching on local autonomy. However, bankers believe that the government's proposal for self-certification by local authorities, coupled with a degree of independent oversight – such as an opinion from the district auditor – should give them enough of a safe harbour.

Financiers are also enthusiastic about the government's insistence on prioritising PFI projects.

"We were particularly keen to see that projects were prioritised and that a flagship list should be established for each department," said Mr Metter.

These changes will not only open the way for more PFI projects, they could also change the methods of financing.

Where most deals have in recent years been asset-based deals, where financing has been mainly by debt, more service contracts are now likely to be possible, where financing will depend on a less certain future income stream.

That will increase the demand for equity financing of the sort provided by Mr Metter's Innisfree fund, as well as by investors such as BZW Private Equity, Charterhouse, CIBC and 3i.

In fact, Mr Metter has already committed almost half of his £85m fund, and expects to launch another much larger fund next year.

The first indications are now also emerging of a market for higher yielding subordinated debt, midway between equity and senior debt.

But PFI deals may not provide the bonanza some bankers are hoping for. Some comparable deals suggest that the pricing benchmarks for PFI may end up at little more than 50 basis points over Libor. As the logjam of deals clears up, some early deals may offer more than that, but the market could tighten quickly.

PRISONS • by Alan Pike

Success story may lead to controversy

The change of government has meant a rethink on privately-managed prisons

At a time when many other government departments were still wrangling over the minute details of launching PFI, Prison Service officials could make quiet, satisfied visits to two construction sites.

These – at Liverpool and Bridgend – will house Britain's first PFI-financed prisons, and building work on both is now well advanced. The Liverpool prison is the responsibility of Tarmac and Group 4, and Bridgend a consortium of Securicor, John Seifert, W S Atkins, Costain and Skanska International.

Liverpool and Bridgend, the first large capital projects to be finalised under PFI, established the Prison Service as one of the initiative's much-needed early success zones.

But, with the change of government, the prisons sector has turned from being a model of PFI achievement to its greatest area of potential political controversy. Before the election, Labour opposed the private management of prisons – a policy that had been introduced and gradually expanded by the Conservatives throughout the 1990s – and this has become a live issue now that it is in government.

Public spending constraints and upward pressures on the prison population last month led to Mr Jack Straw, the Home Secretary, announcing that the private sector will be invited to build and run two more new prisons at Agecroft, in Salford, and Pucklechurch, near Bristol. A private-sector contract to manage Blakenhurst prison, in the West Midlands, will also be renewed.

Mr Straw said that, although the invitation to the private sector to build and run the two new prisons was "an urgent operational requirement to overcome projected shortfalls in accommodation and to avoid dangerous levels of overcrowding," ways would be sought in the long term to return privately-run prisons to public sector management.

The Home Office's ideal outcome would be for the private sector to design, build and finance new prisons on PFI lines, but not take over their management. This reflects a deeply-held view among many Labour MPs and prison reformers that custody is an activity that should, on moral grounds, be confined to employees of the state.

Mr Geoffrey Robinson, the paymaster general who is responsible for PFI, said of the Home Secretary's intention to see if he could come forward with proposals which would not involve the private sector managing prisons: "That's up to him. So long as we get value for money we are not going to try and tell people how to do it.

"But we shall have a damn good look at it to make sure it does offer value for money. The big saving with prisons isn't just that the building is put up better and the maintenance costs are better, but that the running costs are offering improvements. It's one of the areas that seems to be showing a good saving, although it is very early days. You have to remember that."

Even if appropriate financial arrangements could be devised, the private sector would be reluctant to lose its foothold in prison management. Private companies believe they are developing innovative custodial regimes in their establishments – contributing to new ideas in the prisons system, and giving them an exportable expertise if there is a growth in private prison management overseas.

Arrangements under which the private sector financed and built prisons that it did not subsequently manage could not be described as PFI. A fundamental effect of PFI is that it draws private providers directly into the provision of public services.

If that raises ethical questions, the sensitive territory of prisons may become the one where the public argument takes place.

PFI: signed contracts

estimated forward commitments from signed contracts

Next 3 years	**£m**
1997-98	370
1998-99	530
1999-2000	500
Next century (averages)	
2000-01 to 2004-05	1,000[1]
2005-06 to 2009-10	650[1]
2010-11 to 2014-15	470
2015-16 to 2019-20	390
2020-21 to 2024-25	370

1. Includes non-recurrent public sector capital contributions to the cost of the Channel Tunnel Rail Link

Source: HM Treasury

Liverpool prison: building work is now well advanced